

Power, Politics and Policy-Making

**A Comparative Study of the Origins of
Unemployment Insurance in Britain, Sweden
and the U.S.A.**

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Dedicated to both my grandmothers
from whom I received the strength,
wisdom and love for life.

DECLARATION

I declare that the material in this thesis has been written by myself only, unless otherwise mentioned.

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ABSTRACT

This thesis examines the origins of unemployment insurance (UI) in Britain, Sweden and the United States. In order to gain a clear insight into the relationship between the characteristics of UI in these three countries and their policy contexts, Easton's systems theory is utilised as a basis for developing an analytical framework. Easton's theory is important in that it regards a political system as a dynamic domain in which there is a direct correlation between inputs, in the form of demands and supports, and outputs, in the form of decisions. However, due to the broad and general nature of this theory and its tendency to underestimate the impact of ideological factors on the outcome of the policy process, it is supplemented here by two other variables, namely, the power structure and the dominant ideology of the society in question. While the former makes it clear that the differing roles played by different segments of society are dependent upon their position in society, the latter emphasises the importance of the beliefs of the participants, especially those occupying influential positions, in comprehending the political dimensions of a problem.

The empirical part of the thesis utilises this analytic framework, developed in line with pluralist thinking, in examining the introduction of unemployment insurance in Britain, Sweden and the United States. The reason for choosing three countries is that comparative research highlights the importance of cross-national variations as well as the unique contribution one nation can make in the same policy area. These three countries are representative of Esping-Andersen's three welfare-state regime-types. However his theory refers to the subsequent development of the welfare systems rather than to the initial introduction of social security schemes, which did not, at the outset, contain all the characteristics of the relevant regime-types. A chronological account is adopted in order to assess the significance of 'social policy legacies' in establishing UI in these three countries. The analysis is divided into two stages. The first examines the multiple causes of legislation concerning unemployment relief, while the second considers the contrasting characteristics of the UI schemes in the three countries. Thus, differences in financing, coverage (eligibility), benefit levels and administration are explained in terms of the different policy contexts in each case.

Compared with work creation, cash support was regarded as of secondary importance by policy makers in dealing with unemployment. UI schemes were political experiments, resulting from politicians' attempts to deal with crisis situations. Although

flat-rate benefits attempted to express the principle of equality, their level was based on 'social minimum' or 'subsistence level' income. The low level of benefits led to the dual arrangement in which the poor rely on the state and the better-off on the market. As a result, as with earnings-related benefits, the principle of equality was weakened. Selective coverage reflected the policy makers' concern with the financial viability of UI schemes, but, in contrast to universalism which treats all citizens in the same way, it also increased the gap between the better off and the poor who are more vulnerable to unemployment.

This thesis concludes by emphasising that, although policy makers' ideologies influenced their policy preferences, pragmatic considerations were also important: they made their decisions not only on the basis of their beliefs but also on the political and financial grounds. Based on 'top-down' and 'bottom-up' approaches, the thesis implies that the adoption of a policy reflects not only the political preferences of policy makers, but also the assertiveness of those who demand their rights. While in theory it is essential to consider the impact of organised labour on the policies most closely related to their interests, the experience of these three countries highlights the danger of overestimating its role in the policy making process. Other factors, such as the considerable power exercised by political elites and business groups and the different ideological traditions found in different countries are equally influential. Thus, although it is important to introduce ideology and power structure as two complementary elements in order to increase the power of Easton's theory, the historical legacy of the country under investigation is of crucial importance in explaining the outcomes of the policy making process.

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Chapter One

Introduction and General Background to the Study

In his Unemployment, A Problem of Industry in 1909, William Beveridge of Britain argued that unemployment was a necessary accompaniment to industrial organisation and effectively destroyed the case for individual responsibility. Based on his understanding of the problem, Beveridge turned his attention to the best methods of minimising unemployment and providing effective help for those already unoccupied.

Since the beginning of the century, western countries, one after another, have introduced unemployment insurance as part of a public compensation programme in order to maintain the economic and political equilibrium. While the politicians and reformers have attempted to develop and revise unemployment insurance, like any other welfare scheme, as a reply to the changing economic and political situations of the countries, intellectuals in the field of social policy have debated the problems, such as the negative effects, accompanying the operation of welfare systems on the economy and individual people.

In this context, one question seems to be inevitably raised and considered: now that unemployment is a social problem, and the job loss is not necessarily a person's own responsibility, how can society as a whole provide adequate help for those unfortunates threatened by insecurity? Should this group of people receive public support which is subject to changes in government policy and sometimes not sufficient at all?

Just as in industrial nations, unemployment is also becoming an important issue and attracting increasing attention from politicians and intellectuals in developing countries, such as China. Accompanied by economic reform which has changed the pattern of permanent employment in state enterprises in which an 'iron rice bowl' had been guaranteed to a person, the issue of unemployment in China has already occupied an important position among the reforming policies of the government. In the transition from a rural and less developed economy to an industrialised one, unemployment is certainly appearing as an economic, political and social issue within society.

The Chinese government introduced an unemployment insurance entitled 'Interim Regulations for State-Owned Enterprise Workers' Wait-for-Employment Insurance' in July 1986, as an integral part of its labour market policies. Since then it has played a symbolic role in the Government's effort to protect the living standards of the unemployed which, in turn, is intended to help secure the social stability and public

support for the economic reforms. However, as it is still early to make a general judgment concerning the impact of the unemployment insurance system on individual enterprises, the 1986 scheme needs to be fleshed out in crucial respects (Atkinson, 1990), and therefore the study of the provisions of unemployment compensation systems in the advanced countries should be of benefit to China. As Rimlinger said, '(t)he developing countries are in a special situation. They can borrow from a wide range of patterns of social protection that have proved successful in countries that industrialised earlier. The developing countries, ... their problem is one of choosing the most suitable pattern.' (Rimlinger, 1971, p.334).

In this chapter, I shall discuss, first, the aims and objectives of the research, the reasons why a comparative policy study in unemployment insurance has been chosen as my research subject and the significance behind the choice of the countries for my case studies; secondly, a brief description of the research method that will be carried out in the study and its limitations.

Part One The Aims and Objectives of the Research

Studies of public policy are normally divided into two kinds: one is concerned with developing sophisticated models of policy process and through them making prescriptions about how to improve policies, while the other concentrates on the development of public policies in order to gain a better understanding of how they came about (Elcock, 1992). In this section of the doctoral study, which can be alternatively named 'the theoretical study of policy choices of social security in the structure of the decision-making process', the primary focus will be on policy choices in the original social insurance systems for the unemployed in Britain, Sweden and the United States. In order to explain the dynamics behind the selection of some alternative and available policy choices for unemployment insurance systems in these three chosen countries, I will concentrate on how the initial proposals were discussed and how state provisions were finally formulated, and how the differing results of the process were influenced by the different social, economic and political contexts of these countries. The ideological influence of the elites and the role played by groups, such as political parties, trade unions and business organisations, will be particularly examined. The main goal of the study is to draw conclusions about the active interaction between policy choices in social security and the circumstances in which these choices are made.

Section One The Reasons for the Subject

One of the major purposes of any academic research in social science is to discover what the problem is, why it exists, and how to solve it. When the economic recession has already, or is making a large group of people vulnerable to unemployment and poverty in western countries,¹ it is necessary for the politicians and intellectuals in social policy to study the emerging problems in their present UI systems and seek improvements in the state programmes. While focusing on the current situation may lead to a discovery of the appropriate solutions to the problems before they become politically and economically more damaging, it may also be meaningful to look at the problem from a historical perspective. A study of the past will not just offer us a useful guide to the circumstances in which unemployment was regarded as a social problem for the first time in the developed countries and the similarities and differences in their original schemes to help the unemployed.² It may also inspire our better understanding of the present problem in these countries and our efforts to discover more efficient measures to deal with the problem. In addition, through the study, the initial efforts of these countries may serve as a useful precedence and experience for those developing countries in their exploration of how to handle their unemployment problems.

In his book, 'Principles of Political Economy', Mill (1848) made a distinction between the laws of production and the laws of distribution, in which the former was considered to be natural and technological, the latter 'social'. According to Ringen, a practical application of this theory would mean that economic goals should be influenced by one set of policies and social goals by another set and that social policies should be introduced late in the process so as not to interfere with the mechanisms of production. Based on this distinction, Ringen defines the welfare state in terms of 'redistribution policies'; they are used towards the end of the distribution process to modify primary distributions or to repair damages or compensate for dis-welfare which have arisen in earlier stages of the process. Thus, 'social policy is not and has hardly ever been seen as an instrument to tame the forces of the market, but is primarily a way of modifying some of the effects of these forces' (Ringen, 1989, pp.5-6).

Ringen's definition of the welfare state reflects a vision which has been one of the most important inspirations for the development of social policy: we need the policy because

1. The studies of the importance of benefits for the unemployed from both governmental and independent sources showed the tight link between poverty and unemployment. The unemployed was regarded as 'amongst the poorest of the poor' (Sinfield, 1981, 1991 and Atkinson 1989).

2. Fisher also said that one lesson that we could learn from policy study was to 'respect the uniqueness of each program in the light of its historical antecedents, social policy, and economic and political constraints' (quoted in Heidenheimer, 1976, p. 298).

it can promote our social goals i.e. equality, integration etc. Since the 19th century, western capitalist countries, facing various social problems, have adopted different ways to remedy the flaws of the system and reduce tensions (one of the causes of which was unemployment), for example, between capital and labour, in order to ensure the stability of the capitalist market system. Social security systems are one of the means used to try to solve these problems. There have been divergent approaches employed for explaining the need for social security systems in industrialised society: functionalists examined some of the effects of industrialisation on people's life, Marxists emphasised the role of class conflict, while Marshall put forward a theory in which social rights were regarded as a component of citizenship.

The changing economic and political situations of the 20th century, especially after the 1970s, have opened a debate on the advantages and disadvantages of these systems, and the so-called 'crisis in the welfare state'(OECD, 1981) has persuaded people to ask whether the welfare state is still useful and feasible. The dominant critiques of the welfare state are that its means are not effective and that the strategy of redistribution has proved to be merely a surface phenomenon which does not have much real impact. This gives rise to the problem of how to maximise the efficiency of the social security system, i.e. its maximum capability, how the adopted policy choice can best fit its environment and bring about better results.

In order to assess the public welfare programmes in the advanced countries, such as unemployment policies, some principles related to decision making should be first taken into account, as they can be regarded as preconditions which decide the priority and selection of a certain policy. The elements of decision making in social policy may in general include:

A. The economic environment. This is a basic factor when governments make decisions on social security. The productive ability of the country, the state of employment, the income level of people in terms of present international standards, and the changing structure of the labour force will be elements which are considered by decision makers. The economic situation and level of unemployment in the country tend to directly anticipate the public debate on introducing relevant policies, such as unemployment insurance. The relationship between 'labour' and 'capital' in a country, the governmental labour market policy and the policies of the government in dealing with the country's economic problems can affect the features of its unemployment insurance scheme.

B. The political system. This includes the different political factions, the representatives of different interests in a power structure and their effects upon the decision-makers, as well as the level of participation of people in the policy process. While some groups or parties can exert a great deal of influence during the policy making process, the others may find it difficult to get their demands and needs noticed by those who are in the position of making final decisions

C. The ideology of the government. This may influence a government's political preference of one policy over another. The ideological element can function as a bridge which links certain conditions with certain policies and determines the different evaluations of the governments depending on their beliefs. This is taken partly from the tradition of the party, partly from the general cultural heritage in the country and partly from the effect of former policy, all of which may constitute a 'social policy legacy' of the country. The different groups of thinkers demonstrate their influence with a varying degree of success, in accordance with their beliefs such as pro-collectivism, anti-collectivism, and reluctant-collectivism in the welfare system.

The elements discussed above can be summarised by the three basic principles or criteria used by Hall, Land, Parker and Webb (1975), by which we judge policy choices in the context of social security, i.e. legitimacy, feasibility, and support. Legitimacy always involves assumptions about the proper role and sphere of government action, feasibility determines that one step or remedy is taken to deal with a problem rather than another according to what is possible, while the concept of support refers to the 'political possibility' which relates to the satisfactions of some people and the discontents of others for certain policies. The above factors determine, and are reflected in, selection of social security policy. Reasons for the distinctive features of the policies and the different approaches of setting them up in Britain, Sweden and the United States are to be found through studying their differing connections with these elements.

As any decision making always involves the politicians' considerations of these factors and the solutions they find for matters concerned are accordingly influenced by their views, a doctoral thesis which covers such a range will unavoidably lead to very general and superficial conclusions. Concerned with this problem, I shall deal with these factors and problems in a specifically limited way. While the political structures of these three countries, the ideologies of the different groups and parties and their attitude toward the unemployment problem will be given a prominent position in this study, other factors, such as the economic situation and labour market aspect, shall be

considered as essential background knowledge used in my discussion of the former. The development of an economy based on industrialisation and democracy provides both the necessity and the possibility of social security. For the followers of 'convergence theory', the economic level and its demographic and organisational correlates are important causes of welfare-state development, regardless of the type of political system (Cutright, 1965, Pryor, 1968 and Wilensky, 1975, 1981).³ However, Pryor (1968) concludes that the economic level is an underlying but not an immediate cause of the level of social security effort. His argument may imply that the outcome of the decision making process for welfare programmes would reflect the power of the different political parties and groups and their ideologies concerning provision of public help.

According to democratic policy, the state of public opinion about unemployment protection at any one time and the government's response to it are crucial elements. As far as the former is concerned, the demands from pressure groups and the various parties in the power structure, especially the Opposition often play significant roles in initiating and changing policies. The aims of their proposals, the motives of their campaign, the methods they used and the result of their efforts should all be considered in policy analysis. Accordingly, the second one, the government's response, involves the measures taken by the government to deal with the challenges from those who represent the interests of the unemployed and its political rivals. During this process, it is sometimes necessary for the government to make compromises between the demands of different groups, or pay particular attention to the arguments of any one group if required. If the situation is not favourable for the government plan, modifications and reforms will be considered.

The impact of ideological factors on policy outcomes should also be given a thorough investigation. The prevailing ideas among policy makers are likely to impose constraints on policy making for unemployment protection. We should especially examine the reasons for the popularity of certain ideologies and their effects on the politicians' attitudes in handling the problem. The different thoughts of other organisations, such as trade unions, employer organisations and other pressure groups, and political parties, may also be accepted by the party in power, therefore the

3. Wilensky argued that for many countries economic development determines the extent of government involvement in income maintenance programs. Nations with a high level of economic development and with the different types of political regime in power have with very few exceptions extended the boundaries of government transfer payments much further than have poorer nations (Wilensky, 1981).

similarities and differences in ideas concerning unemployment protection between the political parties and other organisations should be carefully considered.

Section Two The reasons for choosing the three countries

Drawing on the observations of Kuhnle and Solheim (1981) and Heclo (1974) namely that, after the initiation of German sickness and accident schemes in 1883, policy makers in other nations directed their attention to the German system by appointing committees to study its legislation and sending delegations to obtain first-hand information, diffusion hypothesis sees social policy initiation in one nation as a copy of the efforts of welfare-state pioneers. However the spatial ordering of programme initiation in Western Europe coincided with patterns of economic growth and the spread of liberal ideologies, so that the independent influence of innovations on the neighbouring societies should be questioned.

Arguing for undertaking comparative longitudinal studies, Wilensky *et al* (1985) declare that basic comparative research can make three contributions to top policy makers. Firstly, policy deliberations can be improved by a better grasp of the degree to which social spending and programme development are constrained by distant social, economic, and historical causes and the degree to which social policy is a matter of political choice. Secondly, by specifying broad policy options and programme emphases chosen by diverse countries that are confronting similar problems, this research brings a wider range of policy options to view. Finally, insofar as this research uncovers the social, political, and economic consequences of different types of social policy and levels of social spending, it can improve the policy maker's understanding of real opportunities and constraints (Wilensky, Luebbert, Hahn and Jamieson, 1985, p.4).

In selecting countries for a comparative study of social policy, several different approaches can be adopted. One possibility is to compare some developed (rich) countries and some developing (poor) countries. Another is to compare some countries with market economies (free enterprise) and some with planned economies (communist) (Kaim-Caudle, 1973, p.16). Yet, there is another approach which selects those countries which have economically and politically reasonable similarities, rather than fundamental differences, as comparative subjects. This enables the analysts to identify the differences within generally similar structures. Among the selected countries in this piece of study, Britain, Sweden and the United States share several common characteristics. One similarity among these three countries is that they are all

developed economies which have provided a base for the development of their social security systems. '[I]n a society where average incomes are barely above the subsistence level it is inherently difficult to provide social services ... the high average income makes it possible to divert large sums, both in relative and absolute terms, to provide social security as well as other social services (Kaim-Caudle, 1973, p.14).

The reasons why rich nations spend a higher proportion of the national income on welfare policies for poor people than poor nations do are partly because that in these countries not only poor people but also all citizens at many income levels take part in the income support programmes (see the following chapter). According to 'convergence theory', industrialisation transforms the nature of the labour force, the self-employed are replaced by workers 'employed' for a wage. Regular income from employment becomes a main source of livelihood for an increasing proportion of the work force. Industrial employment also imposes a clear-cut distinction between those at work and those out of work. As a result, unemployment, sickness, work injury, old age and the like can bring about a sudden interruption in earnings, and the problem of the protection against such contingencies becomes acute. Alongside these changes, geographical and occupational mobility have been increasing and the traditional agencies of support such as families have been weakened (Mishra, 1981, p.40). People are therefore eager to protect, through government, what they have, and prevent any insecurity.

As far as political characteristics are concerned, these three countries also have two important characteristics in common. One is constitutional. All are democracies in which the survival of governments depends on the support of, or at least not being opposed by, the majority of the electorate. The governments could be changed as the result of a election. Citizens are allowed to criticise the policies of the government and argue about their strengths and drawbacks through public media. The need to consult the voters at fairly short intervals makes it necessary for the government to strive for popularity and give preference to measures which are supposed to bring some benefits to, at least, some people. In Sweden, for instance, the trade unions have been a key influence in policy making, and the Swedish Social Democratic Party's policy heavily relied on the unions. Another common characteristic is the prevalence of the rule of law in the administration of social security, and that claimants can use the law to ensure their entitlement to get what is legally theirs.

Even though the backgrounds of these three countries are quite similar in some aspects, it is still easy for us to find differences between them and these differences cannot

easily be explained by one or two simple factors. In the context of social insurance, after its invention and diffusion in the late nineteenth and early twentieth centuries in one western nation after another, a large part of the population were freed from dependence on charity, local poor laws, and the prevalent stigma surrounding means-tested assistance. Eligibility is based on nationally standardised rules rather than the discretion of local poor-law officials or private charity workers (Heidenheimer, Heclo and Teich-Adams, 1976, p.213). However, different nations have varied considerably in their rationale and emphasis in terms of using different techniques because of different historical experiences.

Compared with its counterparts, the Swedish Social Democratic Party (SAP) was able to take more advantage of the situation during the Depression to establish a firm political and institutional base which led to the subsequent development of the welfare state. This was partly due to the political power of the Social Democratic Government and the large centrally organised trade union confederation (LO); the latter made a quick political shift from industrial conflict to political pressures for social and economic reforms. The reforming strategy of the SAP in the 1930s also originated from the co-operative and consultative feature of the Swedish policy making process, with a centralised state and strong bureaucracy as a mediator, which ensured bargaining and compromises between the participants (Weir and Skocpol, 1983; Heidenheimer, Heclo and Teich-Adams, 1983; Lawson, 1987). In contrast to their Swedish counterpart, the British have always been unwilling to accept the trade union movement as a social partner (Elcock, 1992). When the middle-class reformers attempted to implement a contributory social insurance plan, they had three obstacles to overthrow: the sceptical reaction of participants about the administrative capacities to run a contributory programme; liberal and conservative politicians' antipathy to the German type policy and the workers' own organisations' (the Trade Unions and Friendly Societies) fear of the state competition. As a result of this political environment during the interwar period, Britain produced non-contributory pensions and an ad hoc mixture of two other insurance programmes, one run by the state for particular categories of workers and one heavily influenced by private-sector societies (Heclo, 1974).

As opposed to Britain and Sweden, the United States' national social insurance programmes came imbued with an individualistic rationale, and were less adaptable through open political processes owing to the deep popular distrust of government power, the tradition of American individualism, a weaker trade union movement and no left-wing parties. The reformers, through the American Association for Labor Legislation (AALL), sought sickness, old age, and unemployment insurance but did

not find support from either business or labour, and their activities were frustrated throughout the first third of the twentieth century. The power of the reform obstacles was only reduced by the exceptional circumstances created by the Depression and the arrival of the Roosevelt administration (Heidenheimer, Heclo and Teich-Adams, 1976, p.221). Yet within the American situation (with a relatively strong state autonomy), European uniform national standards had no place and the conditions and benefits of unemployment insurance and public assistance were largely left to the vagaries of state discretion, with individually earned benefits and no support from general government revenues.

All the differences demonstrated above, (although they should be regarded as examples), may imply that the distinct circumstances of policy making in the different countries would affect their policies of the same category (e.g. unemployment insurance). Without research of the interaction between the social policies and the different national features of economy, polity, tradition, etc., we can not understand properly the reasons of the operation, development and changes of social policy in these countries. The differences and complexities of the political contexts and, accordingly, governments' motives and their policy orientation, give rise to the question of whether one principle which is adopted to explain the policy making process of one country might be not relevant or less adequate to the cases of other two countries. The study of the policy choice in question will help us understand how the different features of the governments' policies reflect the different conditions under which they are operated and the different results they might give us.

Based on the previous arguments, one may argue that any proposals in the social welfare field are subject to the limitations of time, place and conditions. Therefore, it is unrealistic to imagine that a policy with certain features can be adopted by every country and applicable forever as an eternal model, or hope that there should be an efficient and just system which is always available and through which the problems of social security of an individual can be dealt with and their needs satisfied. As the economic and political problems set constraints for the operations of the welfare systems in different countries, it might be wise to look retrospectively at the past circumstances in which social welfare policies were discussed and introduced in these countries and the distinct features of their policies which were decided by their unique politics and ideologies. Through a comparative analysis of the decision making process for the first unemployment insurance schemes of Britain, Sweden and the United States, I hope to discover that their choices for their unemployment programmes were limited and affected by factors, such as political feasibility. The awareness of various defects in

their systems today should not detract from the necessity of their initial introduction. The different methods they used to deal with problems and their experiences can be of use for other countries and the development of social security theory.

Part Two The Research Method and Construction of the Thesis

The method, with which this research is carried out, is descriptive and interpretative. All materials applied in the work will be the secondary sources obtained from libraries. Because the research is basically undertaken in Britain, for the information about the other two countries, I will have to rely mainly on the holdings of the subject in the University's library, which is limited in many respects. During the course of the research, I made a one-month journey to Sweden where I gained more resources on the Swedish welfare system and was able to interview and consult Swedish experts. However, some information was not available due to the fact that it was not originally written in English and had not been translated.

Social scientists, especially those in social policy, always find themselves doing their research within a dynamic context of social problems, social actions and social changes, and the selection and composition of their research problems are influenced accordingly by these factors; the outcomes of these studies should lead to the provision of solutions to the contemporary problems (see Freedman and Sherwood, 1970). As the central aim of this study is to achieve a better understanding of policy developments in unemployment insurance programmes, it is important to define the research object with regard to the period, angle and major elements. With the examination of the relationship between alternative policy choices and their policy making context, my primary target is to discover some rules concerning what has (have) been selected in which circumstances, by whom, and what effects the chosen policy (policies) would bring to the social conditions of human beings. With these findings, I hope to learn what are the best way to reflect, influence and change our surroundings and what adequate protection society can offer the individuals. As Kristol (1977) argues, in the discussion of policy choice in social security, we should take into account questions such as 'what kind of civilisation, do we want to live in; what kind of social, political, and economic order do we want? What kind of life do we want?' (p.62).⁴ Related to

4. Richardson also argued that in the economically advanced countries with fairly high standards of living, 'the greater the productivity per head and the higher the standards of living, the more will people be able to provide for their own needs and the less will they be dependent on social security', but on the

this aim, the historical and comparative analysis which this study adopts concentrates on the major questions such as: Why were unemployment insurance schemes initiated and why with those features? Why did the changes come about?

Gilbert and Specht (1974) once described the different approaches to social welfare policy analysis as studies of the three 'P's', i. e. process, product, and performance. The first is focused upon the dynamics of policy formulation with regard to socio-political and technical-methodological variables; the second is the study of a set of policy choices which are the product of the planning process, and the last one is concerned with the description and evaluation of the programmatic outcomes of policy choices. Based on their arguments, it might be logical to argue that these three P's should be considered as three different sides of one objective or three inter-connected steps of one process, rather than disconnected completely from one another. On the contrary, a deeper understanding of each of these three P's can be drawn from the research in an interrelated and intersecting perspective. Decision making is a process and to study the different stages of the whole process will help us understand more comprehensively how the single steps and the final outcome are constrained by the whole structure.

If a social security system can be considered as a net structure, the more comprehensive study of a policy might be done by understanding the interactions between the social security system and its surroundings, as argued already. A certain choice always arises from distinct conditions and, after being implemented, brings certain results which will cause certain reactions by those who are being influenced. All of these interactions, in turn, will become preconditions for the next policy making process. Authorities have to modify, improve or even change what has already been experienced according to the result of the operation and changing demands of people or different interest groups or their political rivals and the priority of the authority. The researcher of social policy could not do his work without analysing the surroundings of the changing conditions.

There are many policy choices in the field of public provision programmes which have been considered by politicians. As far as unemployment insurance concerned, the range of policy choices includes at least the following: contributory or non-contributory, tripartite (employee, employer and the state) contributions or other alternatives, flat-rate or earnings-related benefits, central government controlled or

condition that 'provided the national income is reasonably well distributed among the various sections of the population' and 'maintaining high employment' by increasingly successful economic measures (Richardson, 1980, p.37-38).

locally administered, pay-as-you-go or funded schemes; etc. They are necessary elements which appear during the policy making process and determine the structure of the social security system. They cover choices which determine what benefits are to be offered to whom, how these benefits are to be delivered, and how they are to be financed.

Since all the listed choices cannot be considered in the same depth during my study because of time-limitation, some of them must be given some priority. I shall focus on some of them, i.e. financing of the programme (contributory vs. non-contributory), payments of the benefits (flat rate or earnings-related) and regulations for entitlement of the benefits. While these elements will be given a relatively more detailed discussion, other choices will be also taken into account in varying degrees. However, instead of providing a mere description of the features of unemployment insurance of the three countries, I shall concentrate on the relationship between the characteristics of the schemes and their causes, with a hope that this aspect may lead to a more meaningful discussion about policy making process in this field. As Dye (1972) argues, policy analysis is intended to find out what governments do, why they do it and what difference it makes -- the description and explanation of the causes and consequences of government action. By examining the connections between the establishment of different welfare programmes for the unemployed in these three countries and the influence of political power and ideologies on the outcome of the decision making, I hope to be able to reveal the extent to which the differences in the designs of social security systems are largely determined by the political and social traditions and doctrines in each country. Further, I attempt to ask what lessons the decision making for the initial programmes in Britain, Sweden and the United States can offer to present policy makers in the three countries and, if possible, for other, especially developing, countries?

In order to undertake the analytical work described above, I borrow Easton's systems theory as the starting point of my thesis. Easton (1965a) argues that the first important question is how a political system persists and changes over time. According to his thesis, one of the characteristics of political systems is their ability to respond and adopt to stress and therefore they are responsive and dynamic, and open to influence from a wider environment. One of the key elements of political systems is inputs in the form of demands and supports. They feed into those decision making process to produce outputs. These outputs are essentially the decisions and the policies of the authorities, and, within the systems framework, they will feedback into the system in the form of influence or pre-conditions for the future process.

Easton's framework theory is useful for our analysis of the policy process. It offers a way of simplifying the complex political phenomena, emphasises the independence of the various elements which constitute a whole process of political activity and, furthermore, demonstrates how the persistence and stability of political systems are maintained through change (Ham and Hill, 1984). However, we should accept his theoretical construction of the political system as an ideal type instead of what actually happens in practice. As Weber argued, '(a) kind of concept construction is peculiar to and, to a certain extent, indispensable to the cultural science' and the ideal typical concept will help to develop our skill in research because it offers a guidance to construct an hypothesis and gives unambiguous means of expression to a description of reality (Weber, 1949, pp.89-90). The broadness and generality embodied in his discussion will be crystallised by focusing on two aspects of policy analysis: power structure and ideology (see next chapter).

Therefore, the thesis is constructed in the following way. The next chapter is a literature review which involves both analysis of decision-making theory and, related to the factors mentioned in the decision-making process, discussion of various arguments concerning the key elements which determine the introduction and development of social policy. The second part can also function as the base for deciding the angle which this research is going to adopt and finding and selecting the essential materials involved in the case studies of the three countries. The following work will be included:

1. Study of the theory of decision-making, as the theoretical foundation of the research;
2. Examination of a few main approaches to social policy analysis involving a few important elements, which have played influential roles in development in the social policy area.

Through this exploration, I shall be able to see how the policy choice has been influenced directly or indirectly by these factors. These theories will help shape and develop the research structure and put the ideas and selected materials of the three chosen countries into a certain framework. As a comparative study of three countries in the field under investigation will inevitably cover many materials, this framework will not only decide which materials are more relevant and appropriate for our purpose than others and therefore make this piece of research manageable within a limited period, but also provide an angle from which we can inspect the different experiences these three countries went through and discover the reasons behind them. After the three case studies chapters, a comparative analysis of unemployment insurance schemes in the three countries will be carried out. The final chapter is the conclusion.

Although the aims and theoretical significance of this study have been described previously, the verifiability of the theoretical analysis and historical description of events in this study has to rely on the reader's judgments about the contribution which this study might offer to the understanding of policy making in unemployment insurance schemes. This is because policy making is a world which is dependent on 'our prior substantive judgments about the nature of that world, about what it contains and where we are in it' (McPherson and Raab, 1988, p.66).⁵

Part Three Conclusion

Due to the differences of the policy making contexts in different countries, even the same principle would be likely to be reflected in similar programmes in different ways. As the development of a welfare system is subject to the economic and political situations of a country, in order to make an adequate assessment of a public policy, we need to place it in the context in which it was raised, discussed and formalised. Instead of basing arguments on a purely ideological foundation and claiming that any implementation of the policies will necessarily have a detrimental effects on the economy, politics and people's lives, we should look at the contexts in which the operation and application of the policy choice are carried out. The discovery of the causes of the problems in the welfare area will lead to the recognition of effective methods to tackle the difficulties caused by the so-called 'welfare crisis'. A historical and comparative study adopted in this doctoral thesis enjoys two advantages in the sense of time and space. By looking at the origins of the unemployment insurance schemes in Britain, Sweden and the United States, we shall be able to examine the policy making in this field in a longitudinal and latitudinal dimension; the former implies the lessons we may learn from the past in order gain an additional weapon to deal with our problems at present, while the latter refers to the variables of the operation of the same policy world-wide. More meaningful is the inspiration that the other countries can derive for their efforts to establish or develop the welfare programme in the same field.

5. Concerned with the development of a theory of morality and moral decision-making, Held (1989) and Anderson (1990) seek to discover the relationship between social principles and values and practice in the social policy field. In contrast to the idea which maintains that principles can be applied in a more or less pure form to any social situation, they argue that moral enquiry is a constant dialectic between principle and context; social principles can be tested and modified in accordance with the different contexts, which means that the different social situations require different approaches and lead to different policies arising from the same principles. The process of making the most informed decision involves flexibility in terms of operating these principles, and, therefore, it is more complicated than the scientific enquiry model (see Robinson, 1992, p.137).

Chapter Two

Theoretical Framework and Research Questions

In this chapter, I discuss the analytical approach that I intend to use in my research on the origins of unemployment insurance (UI) in three countries, Britain, Sweden and the United States. It is composed of three parts. Part One focuses on the discussion and criticism of systems theory, and is divided into five sections. In Section One, I introduce David Easton's systems theory and then discuss its advantages and disadvantages. In considering the shortcomings of the theory, in Section Two, I seek other important and useful factors and additional viewpoints for my investigation of the decision making process in the introduction of unemployment insurance in the three countries. Two crucial variables, the political power structure and ideological positions, will be briefly discussed. Based on the suggestions in Section Two, I consider, in Section Three, the influence of the political parties and interest groups and the effects of ideologies in the decision-making process. As the roles played by the different political parties and interest groups are often constrained by their positions in the power structure, they make differing contributions to the outcomes of the decision making process. I review the various theories of power structure and the concept of 'non-decision' that is related to an understanding of the different influences from different parties in the power struggle. As far as the ideological element is concerned, I examine, in Section Four, the concept of 'Dominant Ideology' and its importance in decision making. In Section Five, I present a brief summary of this part.

In the first two sections of Part Two, I concentrate on the analysis of some important factors involved in decision-making in social policy. This discussion, which includes reference to my previous discussion, mainly concentrates on the following elements: Ideology, economic feasibility and political suitability. The complex influence of these three components in the specific decision-making environment will be considered and the theory of economic determination in social policy will be questioned. Following a summary of the previous discussion in this section, the importance of adopting a historical and comparative research method in this study, and a consideration of the disadvantages of the other aforementioned approaches and theories will be discussed in Section three. Section Four is an outline of the research questions, while Section Five is a summary of this section .

The last part of this chapter is the summary and conclusion.

Part one Theoretical Approaches to the Policy Making Process

Section one Easton's Systems Theory -- Its Advantages and Disadvantages

Political System and Its Two Main Elements

According to Easton (1965a), the idea of system, as a natural phenomenon, signifies a set of interactions that are naturally interdependent, so that a change of one part will affect the action of another. Political life can be defined as 'an adaptive, self-regulating, and self-transforming system of behaviour' (1965a, p.26, 1965b, p.17), through which commodities are allocated for a society by the authorities. The distribution of goods among the individuals and groups in society is influenced by their conflicting needs for scarce resources. The settlement of the conflict through the rearrangement of the resources renders a political system stable. If the system fails to adjust to changing situations by adopting the necessary measures to regulate its future behaviour, it will possibly be replaced by others, or its internal structure and processes will be transformed entirely.

The operation of a political system is thus characteristically a dynamic process. The dynamic characteristic of a political system is connected with its function as described above. At the core of systems analysis in the political field, two factors, namely, demands and supports, and the decisions made by its members, can be regarded as inputs and outputs respectively. Easton represents a simple model of political system in the following way:

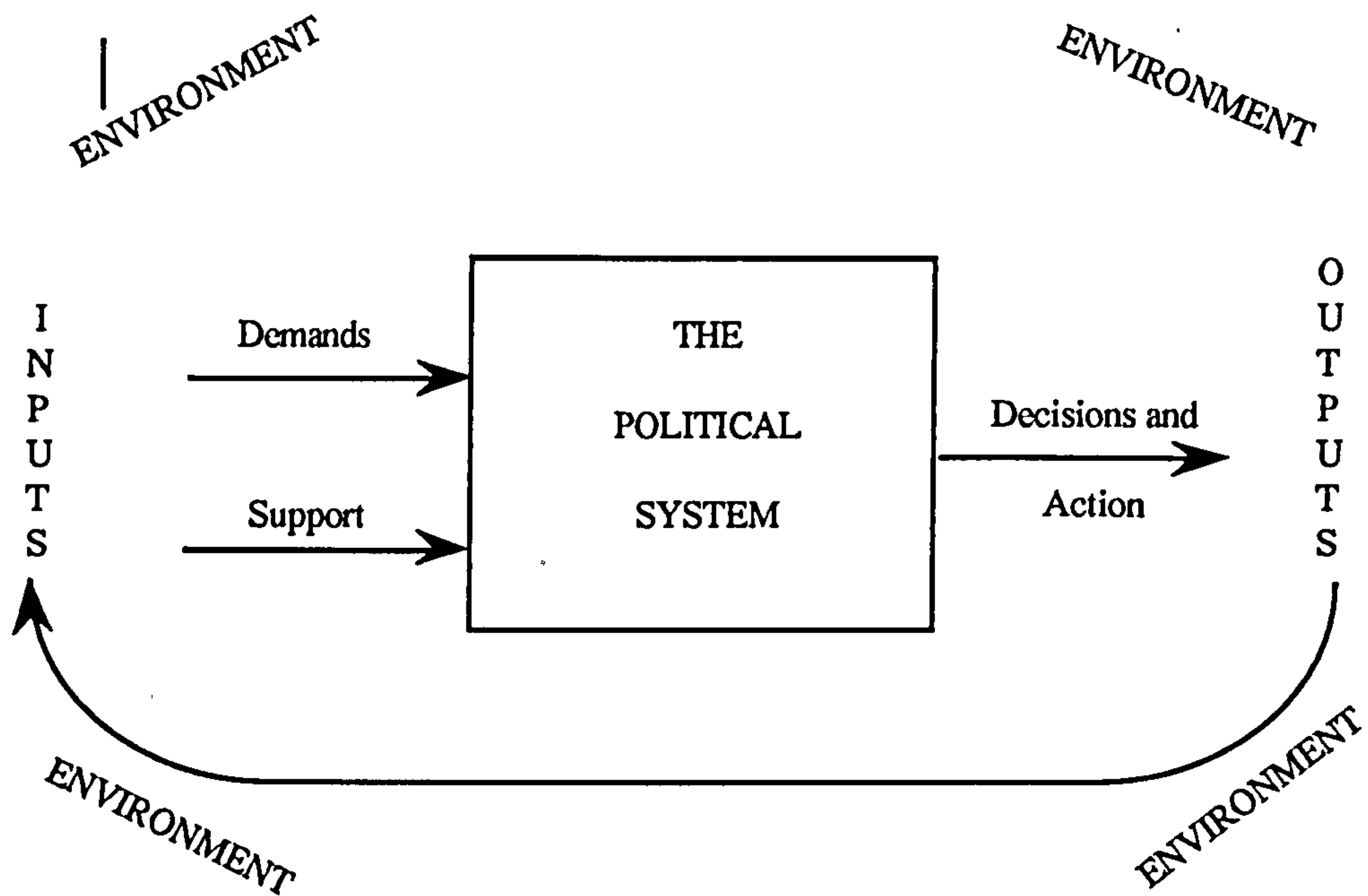


DIAGRAM 1. A SIMPLIFIED MODEL OF A POLITICAL SYSTEM

(Source: Easton, 1965a, p.112)

For Easton, demands can be defined as a statement of opinion that a certain decision, with regard to a particular subject matter, should, or should not, be made by those in power. They can originate from a people's dissatisfaction with their changing situation which could pose a threat to the system. By recognising the demands, politicians would direct themselves to the major problems and, as a consequence, make decisions according to the suggestions, proposals and concerns of those whose interests are involved (Easton, 1965b, pp.38, 48).

The nature of the demands is closely related to the expectations, beliefs, interests and preference of those who present them, as Lasswell and Kaplan (1952) have argued that '(a) demand statement is one expressing a valuation by the maker of the statement' (p.17). Here, demands could be regarded as a medium which connects the political and non-political sectors of the society. The different sources of demands will have distinct effects on the process and the outcome of decision-making and the political elites' ideologies bred within the political system itself should be given particular attention.

As far as the term, supports, is concerned, they can be divided into overt support and covert support. The former consists of external actions by a person or a group to promote goals, ideas, institutions, actions or individuals. The latter, which can be more important than the former, refers to a person or a group who has a supportive frame of mind or

supportive attitudes to the ideas or objects of a person or organisation. The input of support into a system can be measured in terms of 'the intensity of individual feelings and behaviour together with the number of individuals involved'. However this dimension can be misleading. Many members may feel incapable of implementing their ideas as they lack things such as organisations, skills, and resources. On the other hand, a few powerful members, such as active political elites, can make their expressions of support more forceful and have greater effect on the persistence or change of a system. Thus the power of the members should be considered as an intrinsic component when we estimate the effectiveness of the input of their support (Easton, 1965b, pp.159, 160,166-167). Supports, as the other major input of political systems, are important in the sense that, without support, firstly, demands could not be processed into outputs by authorities, secondly, some kind of stability in rules and structures used to convert demands into outputs can not be assured for a regime and, lastly, a minimal cohesion of the membership of a political community can hardly be maintained (ibid. p.157).

Advantages of Systems Approach

A systems analysis encourages us to interpret political life as an open system (Easton, 1965a, p.34, 1965b, p.497). No system can succeed forever in escaping all the effects of internal or external changes. In order to allow a political system to survive, its members must be able to cope with the problems resulting from these changes or unresolved differences in society. They can do it by modifying its goals, structure, rules or behaviour.

The concepts and method the theory offers reveal how the system itself manages to perform or persist through change and how it converts the inputs of demands and supports into output (Easton, 1965b, pp.475-6). With demands and supports as two variables in our analysis, we can discover the motives behind the options taken by the policy maker in the whole process in order to deal with the challenge and maintain the power of support. 'For him, the ability to block a policy may not indicate pathology but be a vital and necessary safeguard for the well-being of himself, his colleagues and the organisation of which he is part.' (Hall *et al.*, 1975, p.24). The approach can therefore provide a valuable description and analysis of actual social conditions, social problems and the measures used to tackle them (Goldthorpe, 1962, pp.18-21).

We can argue that the decisions and actions taken to deal with the internal or external stress are constrained by the resources, traditions, available skills and political concerns the authorities possess. This may also be related to some groups' political incompetence

in the competitive interactions in politics, and, as a result, they can not even put their demands onto the decision-making agenda. This so-called non-decision matter has been analysed by Bachrach and Baratz (1970) and I shall discuss it in Section Three. In this context, we can ask: To what extent do the policies enacted by governments reflect their supporters' interests and demands? How successfully can the pressure groups play their roles by demonstrating their demands in decision-making? Are these demands necessary or a sufficient indicator for initiating change and ensuring the success of government policies? Under what circumstances are certain issues (or demands) given priority over others? The systems framework helps us to identify the central features of demands and supports in the policy-making process and the reasons why some demands are ignored or excluded.

The Theory's Disadvantages

The first shortcoming of the systems theory is associated with the broadness and even ambiguities in the way the theory was constructed and related questions were discussed. Easton (1965b) claims that we can apply the present mode to any study of the specific systems (p.481). However, because the theory pays attention to broader theoretical objectives, it does not provide specific answers to questions such as the conditions for the operation and persistence of a particular type of system. To achieve a deeper and more relevant understanding of the system in question, a whole range of more specific questions concerning it need to be considered. This becomes especially important when students of politics find themselves bound to current policy needs and carry out their research within the dynamic context of social problems, social actions and social change in order to answer immediate problems. Concerning the question of the nature of the boundary that tells us 'when a person is acting as a member of a political system and when his interactions occur outside this area' (Easton, 1965a, p.59), there is an absence, on a theoretical level, of manifest signs indicating clearly the features of this border across which the exchanges between a political system and its environment occur and continue.

The second weakness of the systems framework refers to its failure to answer the question of the importance of ideological factors in determining the fate of the demands (ibid., p.37). Human action, it claims, is controlled by the system for its functional requirements. This explanation of the development of human history is therefore apparently deterministic. In his article, Functionalism and Systems Theory, Walsh (1972) argues that, rather than being shaped by a social system, man constructs the world that he lives in and does not act according to a social role imposed by the society, for the purpose

of meeting the needs of that society (Walsh in Filmer, Phillipson, Silverman and Walsh (eds.), 1972. Also see Haralambos and Heald (eds.), 1985, p.533).⁶ As elected policy-makers are overwhelmingly from the more favoured classes, and are therefore more likely to be sympathetic to the desires of interest group leaders (Lindblom, 1968), it is important to know the policy-makers' ideology when they choose a particular demand as the basis for initiating their policies.

The third weakness of this approach, which is connected with the above criticism, is its tendency to exaggerate the importance of value-consensus in maintaining social order. Although values shared by the various segments of the society may help their holders to obtain the same goal and therefore increase system stability, the value consensus is mainly a theoretical assumption, and hardly a matter of real existence. Abercrombie *et al.* (1990) argue that the existence of shared values or a common culture, as history suggests, does not appear to be empirically a necessary requirement of the existence or continuity of actual societies (pp.5, 232-3, 245-6). Parsons (1951) argues that although each society imposes certain rules on its individual actors, these rules are never fully accepted and integrated within the personality structure of the actors without alienating elements. In fact every complex social system is filled with conflicts and adaptive patterns with respect to whatever value-system it may have (pp.293-7). Secondly, the cohesion within society derives from a social competition for unequal rewards where there is no common commitment to core values (Mann, 1970, p.424. Quoted in Mennell, 1974, p.126). Moreover, it is dangerous to assume that value consensus increases social harmony without considering the conflicting interests of different groups in society and thinking of the content of value, i.e., whose values and ends these are. Value consensus 'is merely a legislation of the position of the dominant group.' (Gouldner, 1954, pp.20-21; Haralambos and Heald, 1985, p.533).

Another weakness of the systems approach is its potential tendency to interpret what happens in society for its functional needs as characteristically universal. Easton (1965b) claims that whether research is about only one political system or cross-system is 'of significance only for the enrichment and enhancement of the reliability of a theory, not for its intrinsic nature' (p.484). There is only one difference between international and

6. Referring to the question, do the authorities merely react to external factors or do they themselves anticipate and then generate and champion certain issues, Griffith (1970) argues that they make up their own minds and put into effect their own policies. Changes in the framework of the law are in their hands and every piece of legislation put before Parliament by the Government is usually to give more power to the Government (Griffith in Hanson and Crick (eds.), 1970, pp.15, 22-23).

national systems, namely that, in the former, the component units include the latter as subsystems, the latter respond and participate in the international system (ibid., p.486).

In the context of the welfare system, this argument indicates 'the cross-national similarities rather than differences; being industrialised or capitalist over-determines cultural variations or differences in power relations' (Esping-Andersen, 1990, p.13). It claims that the creation of the welfare state is necessary because industrialisation has destroyed the traditional institutions of social reproduction, such as the family, and solidarity, such as market dependence; it is also possible because the modern bureaucratic organisation, as an efficient form, can manage collective goods and promote the growth of the welfare state (Flora and Alber in Flora and Heidenheimer (eds.), 1981). Its accounts of the development of social policy therefore have three shortcomings: the functional inevitability as origins; the general benefit as consequences; similarity in all advanced countries as patterns (George and Wilding, 1976, pp.13, 14).⁷

Section Two Power and Ideology -- Their Importance in Analyses of Decision Making

On the basis of my previous discussion of Easton's systems theory and its shortcomings, in this section, I attempt to explore some ideas of power structure and ideology contained in other models of the political system. They will be used as supplements to the previous discussion of systems framework, and are intended to make our analysis of politics referring to the two main factors of political system, demand and support, more specific and substantial. With all of them together, I hope that a more solid theoretical base to my empirical study can be established and a concrete and adequate analysis of the different relevant elements of the decision-making process can be undertaken. My discussion of these additional ideas in this section will be brief, as a more detailed analysis of them will be carried out in next section.

As has been pointed out earlier, the functionalist theory tends to underestimate the importance and complexity of ideological factors in the political system. Since the complex is defined as an interactive process in which the conflicting demands of various parts of a society over value allocation, some problems, like the nature of the conflict of interests, the different power relationships within the system and the values and ideologies of the participants, will have to be included in our discussion.

7. For more detailed discussions, see Part Two, Sections One, Two and Three.

Ideological Aspect

Ideologies can be understood in a specific sense as distinctive kinds of beliefs of people which are produced by particular social structures, and in a general sense, as any set of beliefs regardless of its social causation. As belief systems, they are influential in shaping demands. They could be classified according to the content of the demands, which can range from economic beliefs to convictions about the role of freedom and beliefs about organisations, like the political system, of society. Lasswell and Kaplan (1952) argue that all groups might be thought of as interest groups organised for the satisfaction of their interests. Group consciousness is the degree to which there is identification with the group based on its demands, expectations and solidarity concerning valid interests; it initially increases when in conflict with other groups (pp.38, 40, 45, 46).

In analysing political processes, neither a purely socio-economic approach nor an abstract functionalist perspective can be adequate to explain 'political forces that generate changes' (Banting, 1979, p.1; Clasen, 1993, p.27). To view a particular piece of legislation as 'imperative' in solving a particular social problem does not indicate that the social system would collapse without such a development; rather, certain ends, such as political stability and economic progress, can be achieved by introducing such a policy. This kind of interpretation remains on a high level of generality and is itself not sufficient to consider the specific institutional forms in one country (Goldthorpe, 1962, pp.22-28). In addition, it takes little account of the significance of articulate thought or belief in the process. For its followers, it is not the ideas and beliefs of individuals, but the objective 'demands' of certain social situations that ultimately explain the courses of action (ibid., pp.14-6).

In order to assess the importance of the beliefs of the participants to the outcome of a decision-making process, we need to inquire to what extent the government's ideology constrains the orientation of its policy. Can ideologies from other organisations, such as the political parties or trade unions, have any essential influence on decisions? When circumstances are not favourable for the implementation of the ideas incorporated in the party's ideology, how can the party deal with the situation?

As mentioned in the previous discussion, the demands of the different groups are treated in quite different ways. While the requirements of some groups can get particular attention from the decision-makers, other groups may even be unable to get their appeals heard, and, as a result, their voice is ignored and their needs fail to gain access to the

decision making process. As Lasswell and Kaplan (1952) argue, the dominant opinion is not necessarily the majority one, 'the opinion of an influential minority may be that which is actually effective.' (p.40). Based on these arguments, we shall go on to consider in detail 'non-decisions' which will be discussed in the following section.

The Effect of the Power Structure

The functionalist analysis of the policy development might be modified in two specific points: one is that the 'necessity' of a policy must be related to certain ends of individuals and groups; the other is that the purposive action is directed towards various ends; the ends of individuals and groups rather than the 'needs' of society as a whole should be considered in an analysis (Goldthorpe, 1962, p.28). Thus in the context of policy-making, we need to examine certain programmes to see which group(s) in the society will get most benefits and what the potential effect on the interests of other groups is. In order to do this, it is necessary for us to analyse how the different groups and parties contribute to the outcome of such a policy and why. This is related, initially, to the problem of power distribution.

The pluralist, new-corporatist and the class models are the three that can be considered (see Korpi, 1983). Based on the experience of democratic political systems during the post-war period, the pluralist model suggests that, due to the ever-growing complexity of technology in industrial societies, the class structure of the early industrial society, with labour and capital as its two basic opposed classes, has been replaced with a multiplicity of smaller and more specialised interest groups. The degree of the interest conflicts between classes has therefore become less serious. All groups are given roughly equal opportunities to mobilise their power and exert influence on the policy making process, and the state is seen as neutral in terms of its relationship to each of them. This model has been attacked by various schools for its tendency to stress the equal influence of different powers in politics and to oversimplify the way in which interests are perceived and articulated (Hall *et al.*, 1975). The most successful challenge has come from 'corporatism' which maintains that there is an unequal distribution of power resources that makes society relatively stable. Those few, monopolist interest organisations, instead of seeking for access and influence, as claimed by the pluralists, have a close relationship with the state and are able to participate in policy-making and its implementation.⁸

8. According to Schmitter, corporatism can be defined as a system of interest representation. The constituent units are organised into a limited number of categories which are singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated. They are recognised or licensed (if not created) by the state and granted an organisational monopoly within their respective categories, and

Korpi (1983) argues that both these explanations of the development of capitalist democracies are inadequate and must be questioned. The biggest flaw of the pluralist school is related to its assumptions that 'class divisions and inequalities in power are no longer significant' in changing society, while the neo-corporatist model fails to offer an adequate concept of the role of power in the process of structuring so-called neo-corporatist institutions. The latter ignores the fact that these institutions possibly reflect interest conflicts caused by changes in the distribution of power resources between classes and interest groups. Not only the definitions of social problems but also the alternative solutions are affected by the power distribution (Korpi, 1983, pp.12-3).

According to the class model, there are two types of power resources. The first one involves control of capital over the means of production and the second one is 'human capital,' i.e., labour power, education and occupational skills. The use of human capital is dependent on the demand within the labour market and the directives of management in employment (*ibid.*, p.18). This model emphasises that the real power to determine decisions and regulate demands is in the hands of a small section of the society and elites who usually control economic resources. The strength and political position of working-class-based organisations in power resources can also be significantly effective. Through bargaining between the state, labour and capital, the settlements that involve various compromises will cause the creation of new social institutions or changes to the existing system (*ibid.*, pp.19, 20).

The class-mobilisation thesis, therefore, differing from systems or structuralist analyses, emphasises the social classes as the main agents of change and assumes that the balance of class power determines distributional outcomes. Under a 'social democratic' welfare state, for instance, power mobilisation depends not only on the levels of trade-union organisation, share of the votes and parliamentary and cabinet seats held by left or labour parties, but also on the working-class's capacity to forge a political alliance with, for example, the farmers (Esping-Andersen, 1990, pp.14, 18). The competition for influence among the different parties and pressure groups is sometimes considerable, compromise becomes necessary. According to Friedrich (1937), there are principled interests and expediency interests in all parties or groups. Although these two are not always present and equally effective, no parties or groups lack either of these elements completely. In order to hold together, a party will make concessions to a variety of perhaps incompatible interests. Therefore expediency interests are relatively more constant than principled

obtain certain controls on the selection of leaders and articulation of demands and supports (Schmitter, 1979, p.13. See Mendes, 1990, p.23).

interests and principled interests are modified as they come into conflict with expediency interests (see Lasswell and Kaplan, 1952, pp.42-3, 44).

Section Three: Power Structure and the Functions of Parties and Pressure Groups

Following Section Two, the main tasks of this and the next sections are to search at a more specific level for the significance and implications of the political power structure and ideologies of society in the decision making process.

Since different sections of a society obtain different positions in the power structure, the ideas of the more privileged group or party is likely to be more influential in this process, the others may have less or no impact at all. The relevance of the above three models in explaining the power distribution in Western societies may be limited to different political situations and particular periods; the assumption of the role of the working class in the class model may be better illustrated by the experience of the organised labour force which historically acted within Swedish trade unions in the 1930s and by that of Britain than that of the United States. In America, the working class movement has been insignificant, the merest groups that fight for their own specific aims. These accounts indicate that in order to understand precisely the roles of the various groups and parties in politics, we should first take into account their political positions and status and the relationships with others.

The Different Relationships Between State and Pressure Groups and the Latter's Roles

As a major source of demands, pressure groups can have a powerful impact on governments. Political parties have to collect, sift and condense demands for their political purposes. The attention one group's voice can gain from the government is closely connected to its strength in political contests.

According to Peters (1978), the different relationships between the bureaucracy and pressure groups in different countries are classified within four categories and the influence from the pressure groups on policies varies from being seen as quite illegitimate, to being legally accepted, or even required. In the first relationship, the pressure groups are not only accepted by the political system but also legally involved in the process of policy making and implementation. Sweden can be regarded as an example of this type. In the second relationship, one interest group rather than all groups, as a

legitimate representative of a particular sector of the society, is accorded regular access to the decision making process. In the third relationship, a pressure group gains access to decision-making through its attachment to a particular party rather than through its ability to represent a sector of the society. While the former gets supports from the hegemonic party, the latter imposes its control over policy-making. This type of interaction can be found in the relationships between the Trades Union Congress and the Labour Party in the United Kingdom and between the AFL-CIO and the Democratic party in the United States (La Palombara, 1965; Peters, 1978, pp.152-3). These three legitimate patterns imply a certain stability and institutionalisation of influence. By contrast, in the last type, the illegitimate relationship, neither the system nor the individual administrators accept the inputs of the pressure groups as legitimate. The impacts of these groups on policies and the possibility of reaching the consensus among them are at best episodic.

With respect to the relationships between the bureaucracy and pressure groups of various systems, Peters (1978) argues that the relationships play a crucial role in understanding the nature of the policy making process in advanced societies. Despite the conflict, these two parties can still be on good terms because 'they need each other' and '(t)his need of both parties for the resources of the other can provide a general answer to the finding of frequent co-operation between bureaucracies and pressure groups.' (p.142). Lindblom (1968) also argues that the reasons authorities pay attention to pressure group leaders are, firstly, they may influence their members' voting behaviour; secondly, as participants, they can make themselves heard in the decision making process and thirdly, they are able to exert their influence on the appropriate policy-makers through persuasion and help them to reach a decision concerning policy choices (Lindblom, 1968, pp.63-64, 66).

'Non-decisions'

The above discussion implies that, due to the different political systems, the different groups within a society play different roles in the decision making process. The only way, Dahl (1961) argues, employing a pluralist approach in the context of American politics, to analyse 'power' is to examine carefully a series of concrete decisions, to see who (individuals or groups) prevails in the decision-making and therefore who holds the most power. In this process, actual conflicts (of interests) between the actors will be definitely involved. While the proposals initiated by some participants will be finally adopted, the alternatives suggested by the others will be turned down (pp.93, 336. Also see Polsby, 1963; 1980, p.113-121).

According to Bachrach and Baratz (1970), Dahl's theory ignores the fact that elites can prevent those unacceptable issues from being taken into account in the decision-making process. '[P]ower may be, and often is, exercised by confining the scope of decision-making to relatively "safe" issues', while some groups and issues can not gain access to the decision-making process (p.6. Also see Crenson, 1971, pp.178, 181). It is therefore a one-dimensional view of power (Lukes, 1974, pp.13-4).

Because of the 'mobilisation of bias' of a political system, 'a set of predominant values, beliefs, rituals, and institutional procedures ("rules of the game") operate systematically and consistently to the benefit of certain persons and groups at the expense of others' (Bachrach and Baratz, 1970, p.43). This results in some 'demands that are not articulated: the proposals which languish interminably in the queue or are emasculated beyond recognition.' (Hall, Parker, Land and Webb, 1975, p.151). This so-called non-decision-making refers to a confinement of the scope of decision-making, while decision-making is a choice among alternative modes of action. However, non-decision should not merely be regarded as a negative feature, as Parry and Morris (1982) argue that in many cases non-decisions can be regarded as decisions. It occurs firstly when there is a disagreement between parties and the political elite over the matter concerned and, secondly, when there is controversy among different groups about recognising something as an issue (Parry and Morris in McGrew and Wilson (eds.), 1982, pp.28-9). In Crenson's words, 'we must account for things that do not happen, ... Inaction is just as much as a fact, just as susceptible to empirical verifications, as is action.' (Crenson, 1971, p.26).

Lukes (1974) argues, the two-dimensional view of power of Bachrach and Baratz has a wider aspect than the one held by the pluralists. They take into account not only the interests, in the form of preference of policy, of those who are engaged in decision-making but also the interests, in the form of overt or covert grievances, of those who are not allowed access to the political system (p.20). However, its advance is limited by its focus on the individual's decisions. The power should also be examined in the context of an institution or a system. The bias of the system can be mobilised, recreated and reinforced by the socially structured and culturally patterned behaviour of groups, and the practices of institutions (ibid., pp.21-22, 37-8).

One difficulty Lukes' analysis, the three-dimensional view, has is how and where is the line to be drawn between structural determination, on the one hand, and an exercise of power, on the other. Lukes argues that sociological research must look at the complex interrelations between structural determinism and individual motivation as the origin of

social action. In one way, the behaviour of individuals is limited by the groups and organisations in which they act together, but on the other hand, they also have a certain relative autonomy. The problem here is which factors are the most crucial as components of a sociological environment and how they influence the decision-making process, and the different roles they play (ibid., pp.50-52).

Despite the differences between these three views of power, all of them stress the important role played by the observable conflict of interests of the participants in the exercise of power. Therefore, the exercise of power, decision-making and conflict of interests are regarded as key points for the observers of a political system, in Lukes' words, 'A exercises power over B when A affects B in a manner contrary to B's interests' (Lukes, 1974, p.26, 27). Thus the matter of 'conflict of interests' deserves careful attention from the researchers when they construct their arguments on the exercise of power in the process of policy-making. Therefore we should go further to consider 'interest'-related issues, such as in which aspects and for what purpose, or in which given situations, the participants (parties and groups) of the political process seek for and fight for their own 'interests', or intend to make compromises with other groups when necessary.

One of the elements which may make contribution to the fate of one groups' demands is its beliefs. The fact that some groups' demands and suggestions fail to access to the political process or are ignored willingly by the decision-makers may be mainly attributed to a relative political weakness of these group(s) or the incompatibility of their ideology(s) or value judgements with that of the people in power. We can ask, do the dominant or ruling classes, or the political party in power, always exert their successful control over the ideology or the policy preference of the other groups? What are the factors which explain their success or failure in that sense? In the following section, I shall discuss the concept of Dominant Ideology and its function in the power structure.

Section Four Dominant Ideology

Some Marxists, such as Miliband (1974) and Poulantzas (1978), argue that there is a powerful, effective dominant ideology in contemporary capitalist societies and this dominant ideology has created an acceptance of capitalism by the working class. Based on their observation of the apparent stability of capitalist societies and the lack of a radical working-class consciousness, they claim that to reduce the destructive effects of the economic contradictions of capitalism, its superstructure, particularly its ideology, must have played a significant role. In all class-based societies, the dominant class controls the

construction of a set of coherent beliefs with their own dominant beliefs, and they are so powerful that they infect the consciousness of the working-class. By doing so, the dominant class incorporate the working class into a system which in effect is incompatible with its material interests.

The thesis has been criticised by Abercrombie *et al* (1980, 1990). They argue that there is a dominant ideology, but its precise content is not always carefully specified in the thesis. Dominant classes benefit from the effects of the dominant ideology, yet there is little study of the impact of the dominant ideology on the dominant classes. What has been important for the stability of capitalism is the coherence of the dominant class itself, and ideology has played a major role in securing this coherence but not for a society as whole, therefore the importance of ideology has been exaggerated by these theorists (Abercrombie *et al.*, 1980, pp.1-3, 29; 1990, p.2). Whether the function of a dominant ideology is powerful or not is a historical matter and should be examined in relation to its historical circumstances. The reason for the relative stability of modern capitalist society should be attributed to its provision of a better stream of rewards for most people than other existing systems (ibid., 1980, p.165; 1990, p.24).

The above arguments reflect the influence of materialistic thinking. They suggest that the coherence of society is an unintended consequence of an integrated dominant class, in a context where all other classes are constrained by their economic subordination. There is considerable historical evidence to suggest that societies are not in fact organised around common cultures which are able to embrace different classes. It is a dull compulsion of everyday economic realities that forces human beings to work and binds them to social order. If there is any cultural coherence in society, it is more likely to express itself through the cultural and ideological integration of the dominant classes rather than the ideological incorporation of the working class into society (ibid., 1980, p.158; 1990, pp.245-6, 248-9).

While it is essential to connect the stability of the system with its improved distributional system, this theory has a tendency to belittle the ideological influence on the whole process of this redistributional struggle and its result. Especially, when the organised working class became more aware of their interests, their struggle for their living standards was more likely to be under the influence of certain ideologies. As far as the dominant classes are concerned, we cannot consider the material benefits or higher living standards of the working class as solely the natural result of the market system and disregard the effort made by the ruling classes of society.

The ruling classes' actions related to social reforms originated from their understanding of the social problems and prediction of the possible negative effects on society as a whole or their own class interests. In particular, influenced by the on-going public debates and theories, some leading figures or liberal-minded politicians produced certain proposals in order to tackle these problems. The improvement of the living standards of the working class can be regarded as the consistent accumulation of these proposals, strategies or compromises. Ideological function is not only to direct the different parts of a society to realise their economic aims and then attain or enhance their solidarity but also to help them to understand and appreciate these results or make plans for a further improvement.

In his work, Law and Public Opinion in England in the Nineteenth Century, Dicey (1914) argued that the development of legislation in England had a close connection with the support from the public or the citizens who were active in public life, and the dominant opinion originated or was influenced by certain intellectual figures and their schools. For Goldthorpe what Dicey excluded from his thesis but which were very important in explaining adequately the process were those factors, such as population growth, the development of industrial organisation, urbanisation and the important part played by the civil servants, the social investigators, the organisers of reformist pressure groups etc. The sociological approach adopted by him regards the growth of social policy as a complex process of social change in a society as a whole, not a product simply of the development of dominant thought and belief (Goldthorpe, 1962, pp.8, 9,11).

I would like to suggest that it is true that the social developments mainly occurred first, a change of social and political thought from individualism to collectivism appeared later, yet the role played by the dominant idea in the society or within the parties for social reforms, as the mediator between the social changes and the emergence of a collectivist state, should not be underestimated. When a society is approaching an important transformation period, knowing how to interpret the situation and by whom can sometimes become crucial for its future development. In this respect, Dicey's theory can be useful.

An historical account of the origins of certain types of ideology, like Abercrombie and his colleagues presented, would also help us to examine the changing relationships between the mode of production, the influence of an ideology and the changing class structure. Through this historical analysis, the impact of the dominant ideology on the development of a society will be properly understood with reference to not only the economic but also the cultural and political dimension. In this context, we should concentrate on how the

decision makers, or the elites, make a decision that embodies the influence of the dominant ideas of the society, and to what extent this decision reflects the interests and ideology of the subordinate groups. Although value consensus is not regarded as the essential basis of stability of social systems (see the previous discussion of the disadvantages of Easton's theory), it is still necessary to seek the possibility of appearance of commonly supported ideas or theories in society.

Section Five Summary

Easton's systems theory is useful in the sense that it holds a dynamic view of politics, and analyses what happens in this area against its environment. However, due to the general terms of its description of interactions between the various parties in politics, it is necessary for us to complete the theory with other factors for the sake of making a more accurate study as this research intends. Two elements have been chosen and given particular attention: the power structure and ideologies of the participants of the decision making process. The political influences of the pressure groups to much extent depend to a large extent on their political constitutions. Peter's discussion of four categories of the relationship between the pressure groups and the bureaucracy indicates that the contribution of a pressure group to the decision making process varies from one political culture to another. Its political role can be fully accepted by one system and thereby by law greatly influence the outcome of the decision making process, yet, this may be rejected legally in another system. While one of the pressure groups is allowed regular involvement in the decision making process by one political system, as representative of one part of the society, all these groups can participate in this negotiation, presenting their interests or putting their demands on the policy agenda in a different system.

All these various arrangements reflect the different relationship between pressure groups and political parties. In order to make an accurate judgement about the influence one pressure group can exert on a political system, the power structure in this society should be taken into account. Because of an unequal distribution of power resources between the different groups in a society, the concepts of policy choices and 'non-decision' have been discussed. For Bachrach and Baratz (1970), power does not only refer to decision, the successful exercise of power by one privileged group, which may be hostile to an other group's interests, but also includes non-decision, the unsuccessful attempt of some groups to make demands in the decision making process. The concept of 'non-decision' is criticised by Parry and Morris (1982), as for them 'non-decisions' are in many cases decisions, and decision-making is a process of choosing one course of action from many possibilities. Whether or not we recognise the grievances of some groups as a political

issue, there are always controversial opinions among the different actors in politics. In spite of these criticisms, the concept of 'non-decision' provides more than one dimension for the analysts of politics. Lukes (1974) especially discusses this matter in a sociological context. He argues that all these different explanations about power indicate the fact that the exercise of power involves the observable interest conflict of the different actors in political system. Based on his argument, we may argue that interest conflict should be analysed in its political, economic, ideological and cultural background.

The interactions of the participants in politics are very much influenced by their value judgements. In order to assess the importance of the different ideologies held by these parties and groups, Abercrombie, Hill and Turner's theory of Dominant Ideology (1990) has been applied to this discussion. In response to some Marxists' argument about the significant role played by the dominant ideology of the dominant class on the stability of the capitalist societies and its effect on the working class, they argue that the function of the dominant ideology should be judged historically and its influence on the dominant class should also be considered. The coherence of the dominant class ensured by the dominant ideology has been important for the stability of the capitalist societies. It is the economic relations (interests) not the dominant ideology that has played a significant role for the acceptance by the working class of modern societies, because this system offers it with better living conditions.

Their arguments appear to be materialistic in that they attribute the social stability solely to the economic relations. They also attempt to disconnect ideology from politics, as for them, this stability is an unintended consequence of the dominant class. While they assess dominant ideology against its historical account and stress the economic solution of interest conflict, they however have failed to go further to examine the complex process of the improvement of the distributional system. This improvement should not be regarded as a natural outcome but as a result of the efforts from both sides of the capitalist society. The ruling class's effort is related to its understanding of the social problems, such as unemployment, caused by the market system and the anticipation of its negative effect on them, while the working class had become aware of the shortcomings of the system which had led them to fight for their interests with a mobilised force. The influence of the ideas of the intellectuals and leading figures on shaping the public opinions should not be ignored as Dicey's arguments (1905) imply, although the appearance of these philosophies was closely connected to the changing social systems as Goldthorpe (1962) claimed.

Part Two Analytical Elements of the Decision-Making System in Unemployment Insurance and the Related Research Questions

In the previous discussions, the political system is regarded as a dynamic domain, with the main function of solving the interest conflict between different parties and groups. These parties and groups occupy various positions within the power structure and hold different ideologies in the struggle for their own interests. In this part, I apply these concepts in the context of social security systems. The aim is to identify the basic elements which are required in the analysis of social policy and in my empirical study of the initiation of unemployment insurance (UI) schemes in Britain, Sweden and the United States.

Part Two is composed of five sections: Section One questions the efficacy of studies in the field of social policy which are based on a single perspective. Section Two identifies analytical factors which may contribute to the decision making process in UI. Following the arguments presented in the first two sections, Section Three reviews the advantages of adopting a comparative approach to research in social welfare systems, while Section Four presents research questions for my empirical study of UI of these three countries. Finally, Section Five provides a summary of Part Two.

Section One The Impracticality of the Single-Cause Perspective of Development of Welfare Policy for Unemployment

Heidenheimer *et al.* (1990) argue that the study of social policy involves the analyses of three basic elements: 'how, why and to what effect' governments pursue particular courses of action or inaction (p.3). Ginsburg (1992) refers to these three elements as origins, substance and the impact of policy (p.2). For an adequate analysis of the process of social policy formulation, George and Wilding (1985) argue, it is useful to distinguish two stages: 1) Decisions with respect to whether legislative change will take place and 2) What the actual form and shape of legislation will be. In the first stage, according to George and Wilding, two different explanations can be applied to social policy formulation: one considers primarily the conflicting social and economic class interests and the other focuses on social values. In the second stage, various groups seek to influence the direction which legislation takes, in accordance with their economic interests and value systems. They caution, however, the separation of the analysis of policy origins and policy substance is problematic. As in practice, policy analysis is always

concerned with origins and substance and there is an overlap between these two stages (George and Wilding, 1985).

As one of the schools that has explored the causes of social policy development, 'technological determinism' argues that the technology of a modern industrial society makes the creation of a 'welfare state' both necessary and inevitable (Wilensky and Lebeaux, 1965, p.230). Along with economic development in industrialised societies, members of different social classes are conscious of their economic vulnerability to various contingencies, such as industrial or occupational accidents, unemployment, and so on. Due to the loss of the functions of traditional forms of social and economic assistance, individuals, the affluent as well as the poor, increasingly rely upon government protection to combat income insecurity, 'regardless of the left-right complexion of the governing regime.' (Heidenheimer *et al.*, 1983, p.208). In his comparison of social security spending in sixty-four states in the period between 1966 and 1975, Wilensky concludes that economic level 'overwhelms regime type as a predictor of social security effort' over the long term (Wilensky *et al.*, 1985, p.9). This argument tends to support the convergence thesis -- industrialisation and economic growth determine the convergent welfare state reforms.

The systems-structural approach, like the economic approach, also emphasises the role of industrialisation in shaping welfare states rather than their variations. It interprets social policy as a functional response to difficulties raised by capitalist production. As far as unemployment insurance is concerned, some have regarded its historical appearance as a result of the insecurity of wage employment and the incompleteness of private insurance markets and other traditional forms of income support for pre-industrial societies (see, for example, Harris, 1972, p.148; Rose, 1972, p.40; Garraty, 1978, p.86; Beenstock and Brasse, 1986; Stiglitz, 1988, p.344).⁹ Unemployment compensation policies therefore perform an essential economic function (Axinn and Levin, 1975; Baldwin, 1990, p.5). Atkinson (1991) argues, the approach which takes into account the close relation between social insurance and the functioning of the modern labour market 'helps us understand how the contingencies arise against which social insurance offers protection' (pp.3-4).

The functional approach, however, confronts the problem that governmental social policy emerged 50-100 years after decline of the pre-industrial community. It is therefore considered ahistorical. Functionalism has also been criticised for being deterministic, for

9. According to Garraty (1978), in a free-enterprise capitalist system, labour is dependent on wage employment as workers are separated 'from the ownership of the means of production'; unemployment is associated with such special form of the modern labour market situation (Garraty, 1978, p.5).

excluding the possibility of radical change, and for stressing cross-national similarities rather than differences (Ginsburg, 1992, p.15). Baldwin (1990) argues a degree of risk redistribution achieved in some welfare states, for example in Beveridge era in Britain, has exceeded the necessary point of preserving political stability and economic growth (pp.6-7). In addition, the functionalist approach assumes the existence of concrete and objective 'social problems', ignoring the problematic nature of how 'social problems' come to be defined and interpreted as such (Carrier and Kendall, 1973, pp.212, 218). It implies that the creation of the welfare state is related to 'value consensus' and the efforts of social groups and institutions to meet the 'new demands' of the 'social system' or 'sub-systems' (ibid., 1973, pp.211, 217; 1977, p.272).

The so-called 'crisis in the welfare state' caused by the economic recession in the mid 1970 in industrialised countries (OECD, 1981), led more scholars in social welfare to undertake comparative research on the creation and differentiation of state social policy programmes. Referring to Tawney's argument in 1931 that the process of industrialisation created both the desirability and possibility for the emergence of social services, George and Wilding (1976) argue that what we need to know are the motives and the specific ways that industrialisation has influenced the development of social services (pp.85-6).

Since the economic development of industrialised societies does not correspond to the amount of government spending on income maintenance, economic development is not considered the most important factor in government interference in welfare policies. Rather 'economic conditions and relatively enduring configurations of political power combine to determine how welfare state boundaries are drawn.' (Heidenheimer *et al.*, 1983, p.208). Skocpol and Amenta (1986) claim that politics is an independent element in welfare state research and it 'outweighs economic variables in determining national social policies' (p.136).

In the political context of the welfare state, the institutional settings of various governments have had special significance. The institutional approach argues that, since the economy must be embedded in social communities in order to survive, it is impractical to divorce the economy from social and political institutions. The necessity and support for social policy have not been related only to market weakness, but also to the gradual development of full citizenship in which social rights are the last to be granted (Marshall, 1950). They have also been related to politicians' attempts to gain the broad support of the voters in a democracy by increasing public expenditure (Ashford, 1986).

The institutional approach focuses on the dynamic interaction between institutional settings, aspirations and the visions of policy makers during the process of defining, evaluating and implementing policies. An essential part of the institutional analysis has been to trace the emergence of new ideas and their permeation into the policy process. This does not imply that ideas alone will determine political and social change. Rather, institutional and policy adjustments are seen as influenced by 'how leaders [see] possibilities of successfully integrating these new requirements with old democratic structures (ibid., p.318). The apparent difficulty with this approach has been that the historic development of welfare programmes does not support their explanation. The first major welfare-state initiatives occurred prior to democracy and were powerfully motivated by the desire to postpone the democratic development. Some countries, like the United States, where democracy developed early, experienced a slow emergence of the welfare state, when small property owners, as a dominant group, used their electoral powers to reduce taxes (Ginsburg, 1992, p.15).

The class-mobilisation thesis can be seen not only as a move away from traditional functionalism and institutional analyses, but also from loose pluralist explanations which see social policy development as a result of the effects of a variety of different factors (George and Wilding, 1976, p.20). According to this thesis, social classes are the major agents of change and the balance of class power represents the decisive factor for distributional outcomes. Such an approach adopts a bottom-up perspective, claiming a connection between a strong and well-organised working class and generous social policy. The problem according to this thesis is to satisfy the conditions for power mobilisation.

Esping-Andersen (1990) argues that the power of one agent depends not only on its own strength, but also on the resources of contending forces, the historical durability of its mobilisation, and the patterns of power alliances. Accordingly, a more practical way to analyse the transformation of the modern state is from the perspective of class-coalitions, like, for example, the political alliance forged by the working-class movement with farmer organisations (pp.16-8). In addition, it can be argued that the theory of working class mobilisation, through social democratic politics, ignores other factors, such as the effect of the deeply-rooted structures of economic development or ideological power, and the complexities of the different democratic regimes and welfare states (Stephens, 1979; Heidenheimer *et al.*, 1990). Despite these disadvantages, however, in the discussion of the reasons for the important decision making during the developments of welfare states, this approach avoids a narrow focus on the state and takes into account the interests of the relevant social actors (Ginsburg, 1992, p.14).

Recognising the weaknesses in the former approach, the administrative approach argues that social policy is a functional means for social elites to cope with the threat of increasingly important but still largely disenfranchised classes, and administrators have played an ultimately important role in decision-making on redistributive issues (Shalev, 1984; Baldwin, 1990). Such explanations tend to imply that the state, as an independent actor which captures a certain autonomy, can not only respond to the demands of particular groups but also perceive and solve problems. Thus, the design of a 'welfare state' has been a gradual process propelled by ambitious politicians and civil servants as much as by the potential of social unrest.

The administrative school, however, has been unable to answer the question of why social policy, as a consequence of the administrators' efforts, should be controversial. It has also failed to explain how social policy can ever develop beyond the modest concessions which are necessary for maintaining the existing order (Baldwin, 1990, pp.39-40). Nor does it sufficiently explain the various welfare systems in different countries.

Each of theories described above may have made certain contributions to the discussion of decision-making process in social policy, but each is also subject to criticism. The various explanations are not mutually exclusive, but rather relate to different questions and to specific situations. 'It is the comparative historian's task to delve to a level of cause neither so basic that its elements are universally shared and differences left unaccounted for, nor so proximate that its applicability is limited. ... it is an intermediate level that the most fruitful comparative questions have been posed.' (Baldwin, 1990, pp.38-9). Through cross-national research, we observe different responses to similar problems (Anderson, 1978, p.26). Such research, therefore, enables us to better comprehend the 'social construction of social policies' (Higgins, 1981, p.172). This issue is discussed in Section Three.

Section Two Decision-Making Factors in the Establishment of Unemployment Insurance in the Three Sample Countries

The preceding discussion indicates the complexity of government decisions related to the introduction and development of welfare programmes. The policy making process concerning these programmes involves a complex interaction among economic and social as well as political, ideological, institutional and even constitutional factors and differential interpretations of the problems by various groups or political parties. When the state makes decisions to provide relief and protection, these forces come into play.

In The Possibility of Politics, Ringen (1989) points out four problematic areas of the welfare state upon which its critics focus: problems of legitimacy, governability, economic efficiency and activity. The first problem concerns the attitudes of the population to new or different government action; the second relates to questions like whether decision making represents a response to internal requirements of political consistency or to external pressures; the third focuses on the potential for economic distortions and 'disincentives'; and the last rests on the need to estimate the overall effect of policy on individual behaviour, their ideologies and relationships (Ringen, 1989, pp.49, 93, 101-104). Taken as a whole, these factors determine the priority assigned to a given policy.¹⁰

Normally, the extent to which an issue is assumed to have legitimacy, political support, economic efficiency, financial feasibility and social efficiency, will determine its chances of being put on the agenda by policy makers. However, the assessment of these criteria is affected by the ideologies and interpretation of different political parties and groups. Thus, if a programme is regarded as compatible with the prevailing ideology of the party in power, it is likely to be given priority.

With regard to ideological factors, George and Wilding (1976) identify four schools of social welfare policy: the anti-collectivist, Marxist, reluctant collectivist and Fabian. Each takes a different view of the nature of society, social problems and the function of the state (George and Wilding, 1976, pp.xi-xii).¹¹ As a result, they provide different

10. Ginsburg (1992) also suggests three approaches to understand why governments make decisions or non-decisions in the area of social policy. The first concerns an institutionalised consensus or dominant ideology; the second relates to the function of social policy in responding to crises and in promoting social integration in modern society and the third stresses the subordination of social policy to economic policy (Ginsberg, 1992, pp.11-3).

11. Esping-Andersen (1990) suggests that classical political economists (liberals, conservatives or Marxists) were concerned mainly with the relationship between capitalism and welfare, market (and

explanations for the attitudes of governments and parties toward social problems and the origins, aims and consequences of measures adopted to deal with these problems. Kelvin and Jarratt (1985) also argue that the response to unemployment has its roots in beliefs about the nature of man and of society (p.5). To the extent that society is seen as serving the interests of the majority, poverty is seen as the result of individual failure and the response is compensatory programmes which may improve the individual's situation while attaching social stigma to the recipient. However, when economic hardship affects increasing numbers of individuals and society as a whole, it becomes a political issue that requires broad institutional change in order to improve the operation of the system (Fforde, 1990).

It follows that ideological differences are reflected or embodied in governmental policies. Yet since various sectors of society occupy different positions within the power structure, a party or pressure group which holds a relatively favourable economic and political position is more likely than others to impose its beliefs on the formulation of policy. Carrier and Kendall (1973) suggest that in order to adequately answer questions such as 'why things happened as they did' and 'why certain decisions were taken', political scientists should consider whose definitions of reality are considered legitimate, whose definitions of 'society and its social problems' are involved in the policy-making process and with what consequences (pp.221-222; 1977, p.287).

In keeping with the above, our analysis will focus not only on the ideological motives underlying decision making process, but also on the power structure and political relationships among the parties involved. Solutions to social problems must be understood within the political context of a given country. Due to the variations in political situations in different countries, in relation to the traditions, policy legacy and power structure, we find as well variations in political responses to similar social problems. As Ashford (1986) points out, the adoption by the early liberal democracies of social policies was not merely a function of social need and social justice but also 'a function of how their political and administrative structures might best accommodate...entirely new demands on the institutional structure of democratic governance.' (p.vii). Different welfare systems in different countries were not

property) and the state (democracy). Liberal political economists believed in the necessity of a maximum of free markets and a minimum of state interference as the precondition for liberty and prosperity. Conservative political economists saw an authoritarian welfare state as the best possible legal, political and social form to maintain capitalism without class struggle and as superior to the market in guarantying social welfare, harmony, loyalty and productivity. Marxist political economists claimed the market would increase conflict and intensify class divisions, since the liberal state was the protector of the propertied classes.

'determined by social policies alone, but by the historical, political and organisational structure of the state.' (ibid. p.3). Thus it is important to understand who makes the decisions, how problems are defined, which solutions are considered, which aspects of each solution are assigned greater priority and how priorities are ultimately determined.

In their analysis of the structure of power in society, proponents of the Weberian school of social conflict and Marxist class conflict argue that in advanced capitalist societies, individuals, groups and classes, with varying degrees of power and status, will be in conflict with one another when they pursue their own interests. For Müller and Neusüss, the welfare state emerged from a process of class conflict while capitalism developed as an essential institution for the survival of the system based on the capital mode of production (see Holloway and Picciotto (eds.), 1978).

It follows from conflict theory that solutions to the social problems of one group are likely to come at the expense of another. Since social problems are regarded as the product of conflict, and change is promoted by the forces inherent in the conflict situation, the resolution of the power conflict between the 'actors' or 'players' will be presented in the substance of policy. In the analysis of redistributive policies, such explanations of the development of the welfare state usually draw a battle line between two separate groups: the working and middle class, the poor and the rich. They seek to clarify the groups and classes that have been concerned with social policy, and conclude that a well-organised labour movement and the parties of the left are those that have been instrumental in pressing for the development of welfare provision.

In contrast to the above, Ginsburg (1979) argues that welfare services do not merely provide benefits to the working class, but also create new opportunities for profitable accumulation among the capitalist classes. Due to the skeptical attitude of the labour movement toward the state apparatus, within which its interests are rarely represented, the labour movement has never, it is argued, contributed to state welfare measures. Also, due to the involvement of other interest groups in the political bargaining, such measures have in most cases failed to meet the needs of the working class (pp.2, 7-11, 19, 29). In his qualitative study of the introduction and expansion of unemployment and old-age pension insurance schemes in Britain and Sweden, Heclo (1974) insists that these measures were imposed by the elites (from above) rather than by 'organised labour' (from below). Compared to the influence of an administrative elite, factors such as party competition, interest groups, elections and so on. as policy inputs in pluralist theory, exerted only a secondary impact on policy in both countries. Change resulted from a process of institutional learning on the part of the administrative apparatus.

According to Baldwin (1990), the participants in the contest over welfare policy differ from social classes in general. Attitudes towards redistributive measures are related to the level of risk imposed on the group in question and the ability of that group to achieve self-reliance. Although the industrial proletariat tends to suffer from certain risks, such as unemployment, other vulnerable groups have also been present in every country where social insurance developed. Compared to the benefits accrued by the disadvantaged, 'the stake developed by the comfortably upholstered middle classes in such reform' is a 'much more intriguing problem' (Baldwin, 1990, pp.9, 11-2). Baldwin concludes, therefore, that social policy reform is associated with an awareness of the interdependence of advantaged and disadvantaged segments of society. It is the combination of 'capital's struggle for profits and fair competition, and 'the working class's struggle for a decent standard of living which produced the welfare state (also see Ashford, 1986, p.217). Similarly, Titmuss (1963) suggests that "(a)ll collectively provided services are deliberately designed to meet certain socially recognised 'needs'; they are magnifications first of society's will to survive as an organic whole and secondly of the expressed wish of all the people to assist the survival of some people" (p.39). According to this argument, the power of society is distributed among individuals, pressure groups and the state, each of which present their own interests during negotiations and general elections. Thus, the welfare state is a neutral product of class consensus, designed in the 'national interest' for the 'public good'.

Hall *et al.* (1975), therefore, stress that social policy is partly a history of conflict between interests; but it is also and even more clearly a history of conflicts being resolved. According to this approach, compromise has been characteristic of the outcomes of conflicts in welfare states (Rex, 1961, p.129). Through its non-controversial policies, the state is able to serve the interests of all segments of society and 'curtail sectional interests if and when they arise' (George and Wilding, 1976, p.6). With welfare measures designed by the conscious bourgeoisie, the capitalist system has been made more efficient or more acceptable to the working class and, therefore, more stable (Ginsburg, 1979, pp.19, 29).

The discussion thus far suggests that simple generalisations about the relation between class politics and policy-making are inadequate. Political factors underlying the establishment of unemployment insurance have had a differential impact in different countries. When we consider the importance of political factors in the process of decision-making, we must relate different features of the same type of legislation (UI) to variations in political power structures and the various roles played by different sectors of

society (not just the working class). The entire process of public welfare programmes involves an interaction between the ability of the elite to adequately respond to emerging problems from above and the ability of the working class to build alliances with other groups or classes from below in order to exert an influential role.

In terms of the impact of ideology on the development of social policy as discussed above, we must also base our assessment on more relative terms. Referring to the question of dominant ideology, Turner (1990) argues that empirical, comparative, historical research is necessary. Dominant ideology can never be established merely by theoretical assertion or by relying on guidelines contained in the classical Marxist literature which was written in highly specific historical contexts (Abercrombie, Hill and Turner (eds.), 1990, p.252). Although it is important to consider prevailing public opinion at the time when social welfare programmes were introduced, it is also dangerous to draw cause-and-effect relationships between dominant theories and the outcomes of decision making in the social policy field. The pragmatism of those involved in the process must also be seen as an important element in policy choices.

In reference to the previous discussion of ideological forces in social policy as identified by George and Wilding (1976), the reluctant collectivists, like the anti-collectivists, advocate principles of individualism, liberty and private enterprise. Yet their values reflect objective conditions and their theoretical stand can be regarded as pragmatic. While they believe that the capitalist system is the best economic arrangement, they also accept a certain level of governmental control for the purpose of improving the operation of the system (Harris, 1977, p.16). The extent of the state intervention, they argue, is determined by the various economic and social aims and needs rather than by abstract theory. The concept of political and financial feasibilities are crucial because '[c]onsideration of feasibility is also likely to influence the choice between several alternative solutions, and hence it can probably help us answer the question of why one remedy is introduced rather than another.' (Hall *et al.*, 1975, p.479). Beveridge, for example, was concerned about the effectiveness and costs of state provision (Gilmour, 1983, p.152). For the purposes of adequately assessing the influence of ideology in the policy making process in different countries, we must also locate it in the political context of each country as discussed above.

Section Three The Comparative Historical Analysis Method

As suggested above, the development of welfare systems cannot be attributed to any single cause. Changes in the level of unemployment, economic development and policy doctrines as well as the awareness of unemployment as a social problem all have implications for welfare policy developments (Sinfield, 1991, p.11; Clasen, 1993, p.20). As the interactive relationship among these factors is complex, the conclusions to be drawn from welfare policy are never simple and 'important exceptions to any rule can be found' (Heidenheimer *et al.*, 1976, pp.206, 210-3).

Emphasis on variation and divergence in welfare provision highlights the difficulty in reaching any one conclusion concerning the development of welfare states and challenges the notion of universal validity underlying any general explanation. This becomes particularly important when we compare different countries, since it is difficult to generalise from one country to another where historical development, benefit types and the administration and institutional framework of benefit arrangements are considerably different (Ashford, 1986; Baldwin, 1990; Heidenheimer *et al.*, 1990; Morris (ed.), 1988; Castles, 1989; and Mishra, 1990. Also see Øyen, 1990, p.6 and Clasen, 1993, p.16). In the conclusion of his comparative study of social security provision, Kaim-Caudle (1973) argues that general explanations of welfare developments are likely to be misleading (Kaim-Caudle, 1973, p.291). In particular, theoretical perceptions which can be applied or understood in only one national context are found to be limited (Higgins, 1981, p.12).

In keeping with the above, both the notion of 'historical inevitability' embodied in the various 'determinism' theories which have been discussed earlier and the 'definitive account' should be replaced by the notion of a range of 'plausible accounts', as it 'opens up the hopefully illuminating vision of the widest possible range of realities.' (Carrier and Kendall, 1977, p.290). By generating a range of plausible explanations, which highlight a variety of perspectives on welfare activities and a multitude of value-systems, and by adopting a comparative approach, which highlights cross-national differences and inconsistencies, we may improve our understanding of welfare development.

In contrast to single-nation research, this undertaking enables not only the examination of social policy developments in one country against a broader background but also provides insights into the significance of factors that 'may be very difficult to evaluate by simply examining one society.' (*ibid.*, p.279). By looking at the unique context of decision making in one country as well as elements shared by other countries in this process, we can reach a better understanding of the complex interaction of decision

making factors in the development of welfare programmes. As Kohn (1989a) argues, this type of study can enrich our knowledge and understanding of the domestic policy context and the responses to particular problems. It may shed light on the extent to which welfare policy developments are a function of economic, political and institutional elements. Thus, specific national characteristics and institutional features should be considered as an instructive preliminary step before translating 'nations' into 'variables'. In other words, the 'pivotal distinguishing characteristics of nations become variables in the analysis' (p.23).

As far as the initiation of social insurance programmes in different countries is concerned, Flora and Alber (1981) argue that there is no evidence to show that the introduction of these programmes is necessarily associated with a certain level of economic development and political mobilisation of the working class. On the contrary, varieties are observed between countries with regard to this relationship. Welfare programmes in some countries may be introduced as a result of strong working class mobilisation at the early stages of industrialisation. But they can also originate from economic development in association with deteriorating socio-economic problems and weaker working-class power (Flora and Alber in Flora and Heidenheimer (eds.), 1981, pp.65-8. Also see Heidenheimer *et al.*, 1976, pp.208-9).

In contrast to the convergence theory (see Wilensky *et al.*, 1985, p.387), Flora and Alber's study acknowledges the 'complex relations' between political and economic factors in different countries at different periods. The study, however, excludes a more detailed analysis of decisions (and non-decisions) which have been made in different political, economic and institutional contexts at different times (Clasen, 1993, p.16). The labour movement is seen as an influential factor in the development of social policy. However, since the analysis focuses mainly on the Swedish experience, the thesis fails to take into account welfare programmes introduced by liberal and conservative parties, as well as ideologies and characteristics of different national labour movements (Shalev, 1983; Esping-Andersen, 1990; Clasen, 1993, p.12).

In his qualitative study (see the previous section), Heclo (1974) adopts a comparative-historical perspective which stresses the contribution of 'internal' elements ('political learning') to policy decisions which is relevant for the examination of benefit changes (Clasen, 1993, p.18). In their studies, Ashford (1978, 1990), Scharpf (1987b) and Therborn (1987) emphasise the significance of national institutional frameworks for policy changes. Scharpf (1987b) argues that the ability of governments to translate their specific political preferences into effective public policy 'is institutionally constrained,

and the outcomes of effective public policy are crucially dependent upon changing economic circumstances' (p.230). However, as policy choices in an earlier stage have shaped national institutions which affect assumptions and political resources for later policy changes, the examination of these choices becomes necessary. Variations in national social security traditions and institutional structures have influenced policy changes in unemployment compensation schemes. '[T]he existing political-institutional framework shapes and defines the agenda for considerations of reform as well as the state's capacities for political action' (Toft, 1991, p.14).

Institutional traditions have exerted a major influence on policy decisions. Benefit changes, therefore, are not attributed simply to the economic and political elements, but to 'social policy legacies' as well which inform policy choices and policy outcomes (Clasen, 1993, pp.24-5). The term 'social policy legacy' has been discussed in 'state-centred' models, in which the state is considered not only as an 'autonomous actor' but also as a 'structure and set of policies' (Skocpol and Amenta, 1986, p.147). The theory maintains that previously enacted social policies have significant political consequences for future policy changes through processes of 'policy feedback'. These 'social policy legacies' influence conflicts between political actors (policy makers, officials, interest groups etc.) and, therefore, can be used to explain welfare policy development (ibid., p.149; Heidenheimer *et al.*, 1990, p.230; Esping-Andersen, 1990, p.107).¹² The approach of 'social policy legacies', especially using historical review and categorizations of welfare states into regimes and clusters, is important for an explanation of policy changes in unemployment compensation (Clasen, 1993, p.13).

Section Four Research Questions

According to Carrier and Kendall (1977), there are at least three main tasks in the process of a comparative study which are to construct accurate accounts of: firstly the different welfare provisions and the way they have developed and are developing; secondly the different social, economic and political situations and the way they have changed and are changing and, lastly the relationship between past and present changes in welfare provision, and the past and present changes in other aspects of societies (p.279). From chapter 3 to chapter 5, I shall undertake empirical studies of the initial unemployment

12. Esping-Andersen, for example, argues that the nature of class mobilisation, class-political coalitions and the historical legacy of regime institutionalization are three factors which are especially important in identifying the origin of differences between the three clusters of welfare states (i.e. liberal, cooperative and social democratic). Yet, 'it will suffice to say that the explanation will be found in the interaction between political-power variables and nations' historical legacy' (Esping-Andersen, 1990, p.57).

insurance schemes of the three countries under investigation. Through a historical observation, the connection between the distinct outcomes of the decision making process for unemployment insurance and the different policy making environments in the three countries will be analysed. In order to answer these questions in this descriptive study, I will construct three empirical chapters in the following ways:

Part One A Historical Review

This part will focus on the social, economic and political elements which have brought the discussion of unemployment relief system into the agenda and led to the introduction of unemployment insurance schemes in these three countries.

Section One A brief historical explanation of the different social structures, dominant ideologies and economic developments of the three countries.

Section Two An account of the situations in the three countries in the period when unemployment became a crucial problem and public demand for the discussion of measures to reduce the distress and misery of the unemployed increased. An historical account of measures which had been taken to deal with the problem of unemployment and an assessment of their disadvantages will be provided. The economic position and level of unemployment of the countries in that period (1900s for Britain, 1920-30s for Sweden and the United States) and the policies of the governments in dealing with economic and social problems in these countries, and the consequences of operating these policies which might have an impact on the decision makers' choice for their unemployment insurance schemes, will all be explored.

Part Two The First Unemployment Insurance Schemes

In this part, the central question is: Why were unemployment insurance schemes with these particular features introduced? The important roles played by different political parties and pressure groups such as trade unions and their ideologies will be given particular attention.

Section One The characteristics of unemployment insurance schemes:

- A. Contributory or non-contributory?
- B. Earnings-related or flat-rate contributions?
- C. Source of funds--financed by the insured persons, the employers or the state? or through some combinations of these sources?

D. Earnings-related or flat-rate benefits?

E. Qualification conditions?

Second Two Explanations of These Characteristics

In terms of:

1. Political factors which affect policy outcomes:

A. What was the state of public opinion about unemployment protection at that time?

B. What was the government's response to public opinion about unemployment protection? What measures did the government take to deal with discontent, particularly that of the unemployed? What were the policies of the parties in Opposition on the issue?

C. What role did pressure groups play in initiating and changing policies? We need to ask: i) What were the pressure groups? ii). What policies did they pursue? Why and how did they press for those policies? iii). What was the result of their efforts? iv). What was the government's response?

D. Did the government make compromises between the demands of different pressure groups or pay particular attention to the arguments of any one group? If so, why?

2. Ideological factors which affect policy outcomes:

A. What were the prevailing ideas about unemployment protection among policy-makers? Why were some ideas prevalent?

B. What constraints did party ideology impose on policy making in this field?

C. What were the ideologies of the other organisations, such as trade unions, employers organisations and pressure groups? What were the differences between their ideas and those of the policy-makers (i.e. the governments)?

D. Did the outcome of the policy-making reflect a compromise between the ideologies of different political parties and groups?

Section Five Summary

There are different approaches that have been applied to explain the initiation and development of social policy. In one approach, the analysis with a single aim / single cause perspective, views the creation of the welfare state as inevitable and the only possible solution for dealing with the social problems. This perspective is misleading as it is inclined to understand social reality as a well-shaped structure in which the basic essentials are pre-determined, and also ignores the involvement of various factors in the policy making process and their distinctive significance. The 'technological determinism' or 'industrial logic' is commonly applied to this approach. These writers closely connect the appearance and expansion of welfare programmes with the economic growth of the country and argue that it is the latter which made the former imperative and available.

Another approach seeks to explore the different elements and their complex relations in a specific historical context as multi-causes of the welfare policies. For the theorists of this approach, social policy originated from choices rather than one determinant or a necessary resolution. They question the relevance of the former approach. Heidenheimer *et al.* (1983) argue that economic development is a necessary, but not the most important, factor in deciding one country's welfare arrangements, as welfare policies can differ among countries which have reached similar economic levels. The influence of political factors should also be taken into account. George and Wilding (1976) also argue that the motives and the specific ways of creating social welfare systems by industrialisation should be explained. Carrier and Kendall (1977) argue that to connect generally the welfare development with industrialisation conceals the difference between correlation and causation and may elevate the 'classification of causes' to an absolute which cannot be safe. Issues, such as different interpretations of social problems by the different groups of a society and their significance should be included in analysis. Relatedly, the crucial role played by the elites in the evolution of social policy has been emphasised by Heclo.

Based on the above discussion, some possible elements which may be involved in the decision making process of social policy have been analysed. Regin's four main aspects, public opinion, political situation, economic and financial concerns and people's assumption of the possible effects of the policies, can be regarded as basic factors in our analysis of the welfare state. In relation to my previous discussion in this chapter, two factors, the function of ideology and the power structure, have been given particular attention. As far as the ideological element is concerned, George and Wilding's description of four theories offers detailed arguments of each school's understanding of

society and state, their principle of freedom and justice and their attitudes to the public welfare policies. The characteristics of certain welfare policies will definitely bear the marks of the influence of any of them. However, it is unsound to overlook their pragmatic stand in the development of the welfare system. Their judgments and proposals for solving the social problems can be based on their concerns over the situations rather than abstract principles.

In terms of political considerations in the analysis of social policy, the different explanations of the causes and effects of social policy have been presented. One approach, the conflict model represented by the Marxist school of class conflict and the Weberianism school of social conflict, believes that capitalist societies are composed of interest-in-conflict groups and classes, these groups and classes are in different positions in the power structure of the society and therefore have divergent impacts on social policy. Another approach, the consensus model, holds the pluralist perspective of the power structure of a society in which each segments of the society gains an equal power and has the capability to present its interests in negotiation, and the state is able to serve the interests of all groups of the society. Accordingly, for the former, the operation of welfare programmes can be more rewarding to one group (class) than others, while for the latter, the creation of the welfare state is designed to serve the national interests, meeting those publicly recognised 'needs'. According to the Marxists, as the capitalist class is economically privileged, the welfare policy is created in accordance with its interest. Although the working class played an influential role in social reform and gained benefits from producing a better distribution system, the welfare system is ultimately beneficial to the stability of the capitalist system. The political pressure by the working class in creating the social welfare system is not properly assessed in the consensus model. By contrast, the institutionalised conflict model of Hall *et al.* (1975) and Heclo underlines the power of the working class organisation and regards social policy as a resolution and compromise of the different class interests. However, this approach is limited to some case studies and lacks a critical analysis of the influence of wider socio-economic and ideological forces.

All the various accounts indicate that it is impossible to make general judgments about the cause of the introduction and development of social policy in different countries, because various elements and their complicated interaction will be necessarily engaged in the decision making process in this field. A more practical way to carry out such research may be available in a historical and comparative study. In this context, the term, 'social policy legacy', and its importance in explaining the complexity of the welfare policy developments, has been justified. The approach, which puts an excessive emphasis on

external and constraining social and non-social forces and regards them as the determinants of the development of 'welfare states', should be challenged by the alternative one which takes the internal forces into its decision making analysis. These internal forces', such as the 'class struggle', 'class conflict', the institutionalisation of such conflict, or alternatively, 'historical and economic forces' or 'political forces', are employed in this type of study. The critique of this approach is related to its 'over-socialised' concepts of welfare development. A different angle which will give a proper consideration of the important role of the elites in politics may be found necessary. The concept of 'history legacy' can serve the purpose of making a fairly balanced judgment of the relationship between the impersonal 'objective social facts' and an individuals' contribution to the welfare developments.

Part Three Summary and Conclusion

In the beginning of this chapter, I have discussed Easton's political system theory with the intention of borrowing it as a theoretical framework for my research in the decision making process in UI of the three countries chosen. The theory may be useful for this study as it defines a system or political system as a dynamic area, its components are dependent upon one another and the system is subject to the influences of its environment. Its shortcomings are however also apparent. Firstly, it provides a very general description of the ways that a system operates, reacts to pressures and produces solutions. As a result, there is a lack of a concrete and precise description of how this system carries out these functions and which groups play significant roles for the output of the decision making, how 'demands' and 'supports' as two main elements of its inputs are precisely defined and accepted by the political system. Secondly, the theory appears to underestimate the different significant effects of ideological factors on the political actors in the decision making process. Thus it fails to hold a sufficient power when it examines these two elements as inputs of the political system, but rather leads us to believe that decisions or actions as outputs of the system are a purely functional response to the changes in its environment for the sake of surviving. Lastly, referring to the former problem, it tends to indicate that the agreement over values can ensure the integration of the society, and therefore overvalues the importance of value consensus contained in a society for the decisions made by its members.

Referring to the discussion of the merits and shortcomings contained in Easton's systems theory, two perspectives have been introduced as complements into the discussion of the decision making process. One is power structure and the other is the divergence of



ideologies of the participants of this process. The relevance and significance of these two elements for analysing the decision making process are related to their account of the complex relationship between the groups and parties in the power structure and the impact of their ideas on decision making. For the sake of the survival of a system, as Easton described, the actors in politics must assess 'demands' and 'supports' of the system in order to adopt proper measures for social problems. However, the crucial questions are: which groups' interpretation and understanding of one issue can be accepted as 'social problem' and therefore should be dealt with accordingly? Why is one group more influential than others in defining the social problem? If we suppose that a society is composed of the different groups and classes which have conflicting interests and divergent positions in the power structure, then one group is not only able to direct another group or groups to implement policies which conform mainly to its needs, but also prohibit the other's desires from getting access to the decision making process as it is described as 'non decision' by Lukes *et al.*.

As far as the first factor is concerned, three different schools provide us with various descriptions about the power distribution of a society. While the pluralist group argues that all groups in a modern democratic society are given a roughly equal opportunity to mobilise their power and exercise their political influence, the corporatist group insists that there is an unequal power distribution among the different parts of a society; a close relationship exists between the monopolist organisations and the state, the former act as mediators between state and their members. Both of these two schools have been challenged by Korpi's 'class model' (1983). It argues against both the assumptions that class division and unequal power distribution in society are not significant any more as claimed in the former school and the neglect in the latter school of the significance of power and the reflection of class conflict in neo-corporatist institutions. The 'class model' holds that as two main power resources in modern societies, 'capital' and 'labour' can exert their influences on the distribution system, interest conflicts and function of the social institutions, social institutions are resolution of interest conflicts which reflect power distribution. However, the real power is possessed by a minority who controls the means of production. Although the working class, as a mobilised force, is allowed to play a certain role in politics in the industrialised societies, it is the capitalist class, the owner of the means of production, which obtains a more privileged political position and gains more benefits from the state policies.

The necessity of introducing the second factor, ideologies, into the analysis of decision making relies on the following thinking. As it is revealed that different groups and classes hold different positions in society, organisations and parties, as their representatives in

the negotiation, are expected to have various impacts on the outcome of the decision making process. While one group or party may dominant the process, some other groups or parties are found to play minor or subordinate roles, or even not be able to make their demands noticed by the decision makers. These groups, parties and classes carry out their actions and set up their political aims on the basis of their beliefs. It becomes important to understand how and to what extent they are influenced by theories in political contest and how their power possession affects the acceptance of their theories by the society. In this context, I have taken the concept 'dominant ideology' into account. Although its existence and significance for the stability of modern society is debatable, the concept implies the important distinctive role dominant ideology has played. In particular, the aspect emphasised by the theorists referred to in this chapter, namely that its influence on the ruling class should be assessed against the specific historical background, may be helpful for my investigation of the establishment of UI of the three countries chosen. While it is true that in the end the materialistic solution to the interest conflicts between the different parts of a society account for a lot, we need go further to ask why the proposals were designed in different ways and received different reactions, and who were those people who made such proposals. While those in a privileged position in the power structure will be likely to leave prominent marks on decisions, they are not only subject to the confrontation of their rivals but also constrained by the historical traditions they inherit. The term 'historical legacy' used by various experts in social policy indicates the influence of the policies set up in the past as well as cultural traditions on the present decision making process.

The research on decision making in social policy or unemployment insurance programmes has concluded that it is inappropriate to attribute the welfare programmes to solely economic developments. The economic level of one country is important in explaining the cause of the introduction and expansion of its welfare programmes, but it is dangerous to concentrate on economic aspects. Some other factors, such as the political situations and ideological differences of the participants in decision making, should also be taken into account. It is proper to argue that it is the complex combination and interactions between these elements that have significant impacts on governmental intervention in the welfare system. This argument may be best clarified by a historical and comparative study of the introduction of one welfare programme, such as unemployment insurance, in various countries. To choose a historical angle makes us realise the importance of 'social policy legacies' when this country sets up its policy in this field, while a comparative study can offer a diversified explanation of the causes of the introduction and development of the welfare system with illustrations of unemployment insurance programmes.

In next three chapters, I shall undertake empirical studies of the original UI programmes of Britain, Sweden and the United States. Based on the discussion of decision making theories, I shall not only pay attention to the historical situations of these three countries in which unemployment appeared as a serious social problem (which prompted the collective action to deal with it), but also attempt to find out the roles played by the different parts involved in the public debate and decision making process. This design is based on the analysis of various theories related to decision making and its components. Before turning to the different features of UI of these countries, I shall start my investigation with a historical review of the measures adopted in these countries to combat the hardship caused to the poor by unemployment. This arrangement will provide us with a general background of the development of policy making in this field, which is intended to indicate the different 'legacies' these three chosen countries had and what kind of 'learning process' they went through. After presenting the characteristics of their UI schemes, I shall explore the reasons for these differences. This will be achieved by exposing the roles played by the political parties and groups, various actors, behind the 'scenes'. Due to the variances of their political strength, they are expected to show distinctive capabilities and skills in politics. Equally important, their actions could also reflect their understanding of the economic and social circumstances then which was related to their ideas or beliefs of the state, individuals and society, and the influence of the national traditions.

Chapter Three

The 1911 Unemployment Insurance Scheme of Britain

In this chapter, I discuss the establishment of the British Unemployment Insurance scheme of 1911. In order to gain a thorough understanding of the characteristics of the schemes and the reasons behind them, I give, in Part One, a detailed account of the different measures which governments introduced to deal with the problem of unemployment. In Part Two, I explain the features of the 1911 scheme and analyse the political situation and the dominant ideology of the government which were reflected in the unemployment legislation. I also pay attention to the various roles played by the different parties and groups. In Part Three, a conclusion to my discussion is provided.

Part One The Policy Context

This part is composed of two sections. In Section One, I give a brief historical account of the social structure, dominant ideologies and economic development of Great Britain. In Section Two, I analyse the situation in Great Britain when unemployment became a crucial problem and public demand grew for the introduction of measures to reduce the distress and misery of the unemployed.

Section One A Brief Introduction to Great Britain

Situated in northwest Europe, the United Kingdom of Great Britain is a constitutional monarchy. There is no separation of the powers (that is of the legislature and executive). The British legislature and the executive mix freely together, ministers sitting and answering for their policy in both houses of Parliament -- the House of Commons and the House of Lords. The duty of the Parliament is to make the laws which govern the life of the community, to appropriate the necessary funds for the various services of state and to criticise and control the Government. The judiciary remains independent. Supreme bicameral legislative authority is given to Parliament, but the powers of the House of Lords, once equal to those of the House of Commons, have been cut drastically since the controversies early in the 20th century. .

The unwritten constitution of the UK depends for its proper functions on the existence of two strong rival political parties. Earlier in history, the Conservatives or Tories, and the Whigs, later to develop into the Liberal Party, were rivals. At present the two major parties are the Conservative and Labour Parties. The Government is formed by the Party

which can command a majority in Parliament. The Party which gets the second largest number of seats forms the Opposition and has quite specific functions. Members of other minority parties and independents may choose to support the Government or Opposition. The government can be overturned by an adverse vote in the House of Commons.

The cabinet is composed of a committee of ministers of the Government. The system has been developed since the eighteenth century. Its main duty is to formulate policy for submission to Parliament, and offer advice to the Crown. The Government in power in practice introduces most Public Bills into the House of Commons. After it is passed at its third reading in the Commons, it is sent to the House of Lords. As a result, it is either accepted or returned to the Commons with suggested amendments. The Lords can not prevent Bills passed by the Commons from becoming law.

In the 18th-19th centuries Britain was among the first of the European countries to undergo an industrial revolution, which brought with it a leadership in the field of commerce and industry. As islanders, the British have taken naturally to the sea. Circumstances made them a nation of overseas travellers and established the British colonial system. By the late nineteenth century, the British Empire was bound together not only by industrial strength, but by her vast merchant marine and powerful navy. In this industrialised country at the beginning of the century, 1,042,435 people were employed in the mining industry. At least 5,000,000 people were dependent upon the textile-related industries for their livelihood. In the field of commerce, the total value of imports and exports of merchandise was £1,212,806,088 in 1910.

The United Kingdom of Great Britain had a population of 45,469,564 in 1911, living in an area of 121,391 English sq. miles, and about one-sixth of the population were electors. The country occupied a unique position in the world economy. It also brought a train of social problems, which the state sickness-and unemployment-insurance system, first introduced by the Liberal Government in 1911, and a free health service and education system were introduced as a remedy.

Section Two Political Debates and Measures Taken by the Parties on Unemployment prior to the Introduction of the UI Scheme

In order to give a comprehensive account of the first British insurance scheme for the unemployed, it is necessary to analyse the background against which the scheme was discussed and established, and thus clarify the origins of the main ideas and principles that governed the introduction of the policy. Harris (1972) provides us with two main points which were accepted by a majority of social reformers and public administrators. They are:

A. The loss of employment was accompanied by social destruction, economic waste and political danger no matter whether it arose from individual deficiencies or from a harmful social environment. Therefore it could be, to a certain extent, prevented and ought to be relieved;

B. The remedies used at a local level and by voluntary effort had proved inadequate in resolving such an erratic and unpredictable problem for different industries, regions and types of workmen. Therefore, the organization and aims of the policy adopted should be set on a national rather than local level (p.348).

Starting with these two points, I set out my survey of the main factors which could have incited the Liberal Government to adopt a novel method of dealing with the problem of unemployment. I consider it from three aspects. Firstly, there was a shift in the dominant opinion about the relationship between the individuals and the state. In this way, I attempt to see how ideas concerning the position of the state in the individual's livelihood changed at that time and how the ideology of the government had an impact on decision-making. Secondly, there was a fresh understanding of the causes of poverty and unemployment, mainly as a result of empirical studies. These surveys proved that poverty was not just derived from the unfortunate person's personal moral inadequacy, but had economic and social causes over which the individual had no control. The principles of the 1834 Poor Law were seen to be inadequate in dealing with the problem. A different method for solving the problem was seen to be necessary. Thirdly, with the increasing unemployment during this period, the organised labour movement appealed for measures to protect the unemployed and their families from fluctuations in the labour market. Their pressure led the governments to introduce schemes in order to maintain the social stability and political alliance. The Liberal's scheme was thus only one point in a whole chain. From this discussion, we hope to discover the factors which played

important roles in changing people's opinion about the unemployed and to see how this change persuaded social reformers to attack the problem and rescue the unemployed from deprivation.

The New Liberalism and the Traditional 'Political Economy' Dogmas

The great Elizabethan consolidating statute of 1601 established the guidelines of poor relief, seeking to provide work for the unemployed, practical training for pauper children, and help for the aged, the sick and the infirm. The parish was designated as the centre for relief. When, in 1723, two or more parishes were permitted to unite in order to build workhouses, their declared purpose was simply that of putting the poor to work, and the measure led to a stringent workhouse test. Gilbert's Act of 1782 tempered some of the harshness of the workhouse test, yet the regular people were angered by the growth of machinery and enclosure and a dynamic and troubled time lasted through into the nineteenth century. Until the end of the nineteenth century, poverty was dealt with by the Poor Law (which was locally administered) and by private charity.

The 1834 Poor Law

The economic theories of the early Victorians were modified by their consciences and their concern for public safety. The philosophy of 'political economy', with Adam Smith and David Ricardo as its leading figures, continued to exert a decisive influence on political and economic thought throughout the nineteenth century, and its individualist ideology had enduring strength in Britain. By the mid-nineteenth century a synthesis of political economy and utilitarianism had emerged in that body of attitudes often called 'victorianism'. Its social philosophy crystallised into four great creeds: work, thrift, respectability and, above all, self-help.

'Self-help', the superior virtue, came from Adam Smith's belief that an open and competitive society with its enormous opportunities enabled individuals to pursue their self-interest. For them, human happiness relied mainly on economic growth, and, as the primary goal, the development of economy could be achieved by leaving all to pursue their own self-interest. Free and rational individuals should through their own efforts seek the maximisation of their desires. Logically, the role played by the state was regarded as negative (Fraser, 1973).

The implications of this ideology for the Report of the Poor Law Commission of 1834 were clear. The famous principle of 1834, 'less eligibility', was a good example: the

situation of the man in receipt of relief ought to be worse than that of the poorest independent worker in order to encourage a return to the state of independence. Because of the prevalence of this philosophy, collectivist political movements were slower to develop in Britain than in Continental Europe and as a result of this, the expansion of private and voluntary collective welfare was particularly rapid.

According to Ashford (1986), the 1834 Act as a policy instrument was the primary point in debate about social policy in Britain. Firstly, compared with the law, the Elizabethan Poor Laws had a much broader notion of the state's responsibility for the disadvantaged and the poor; Secondly, the 1834 Act was in many respects not an effort to build a system that might be adjusted to future social problems, as the policy makers preferred a solution to Britain's industrial problem that would permit minimal disruption of rural harmony; Thirdly, the 1834 Act had devised a strict notion of social benefits, the crude means-test became the hallmark of the British welfare state (p.69).

However, while it set up the principle of 'less eligibility' for the elimination of poverty, the 1834 Act also represented the establishment of an important precedent. It created an administrative method of enormous importance for the future: inquiry was followed by report, by legislation and by inspection. The combination of central and local bodies, the Poor Law Commissioners and elected Guardians, to deal with social problems, was to provide the essential pattern for future social reforms.

The creation of a national system of poor-law administration by the Poor Law Amendment Act not only set up the detailed aims and the means to avoid the variety and looseness of the prevailing system but also established a central body to ensure its operation. The combination of the central direction of policy with local control of administration by professional officials reflected the teaching of Bentham which aimed at efficiency and began the shaping of English government for modern purposes. The Act was a major landmark in social legislation as it indicated that the State was obliged to support its weakest members and because it attempted to use collectivist means to achieve the individualist ends: through State intervention in the form of rigorous procedures, able-bodied paupers were expected to recover their personal freedom and employment in the labour market. Therefore, men's welfare was conceived of only in the economic market and the cause of able-bodied pauperism was confidently identified as a moral one. The provision of deterrent workhouses marked the proper limit of state intervention. Furthermore, the collectivist innovation embodied in the Act was inhibited in practice by Parliament and by the prevailing mood of certain sectors of public opinion. The 1834 Report took the view that the State should not interfere with 'the ordinary law of nature'

and believed that it was better that a man should suffer even though no fault of his own than that the laxity of the pre-1834 system should be maintained.

The Increasing Influence of Collectivism

The individualist philosophy, advocating self-help, and condemning state intervention was neither absolute, nor so generally accepted. Social reform began after the passing of the Reform Act of 1832, and public health was appearing as the main issue in the 1840s. The Public Health Act of 1848 created the General Board of Health to deal with the deteriorating sanitary conditions. Although the Board existed as a fully independent and useful body for only six years, a group of people of all kinds, civil servants, doctors, inspectors, and public-spirited individuals, helped to provide a passing appearance of a new administrative state and push reform along. The administrative measures set up by the early Victorians marked the partial introduction of some of the features of the modern welfare state (Roberts, 1960). The reform process continued piecemeal and the reformers were alert to the dangers of centralisation and state intervention. However, there was already a simple machinery which could be used as a foundation for social reform in the future when social conditions got worse. In the 1870 Education Act, W. E. Gladstone's ministry underlined the limits of sporadic local and voluntary action. Benjamin Disraeli's social reform of 1874-80 in public health legislation marked a real change from negative, piecemeal interference towards a more constructive programme.

There was a rise of collectivism between 1860 and 1900 (Pinker, 1971, pp.85-92). A.V. Dicey (1914) called the years between 1865 and 1900 the 'period of collectivism', in which the state action was made to improve conditions for the people as a whole, even with some loss of individual freedom. The British intellectuals have engaged in debate over the nature of utilitarian collectivism as a surrogate for the concept of state as revealed in law, institutions and administration in the rest of Europe (Fry, 1977, pp. 32-40).¹³ The Oxford philosophers, T.H. Green and D.G. Ritchie, who examined the relationship between the State and the individual from an organic point of view, were considered to be contributing largely to this shift. The younger Liberal politicians were influenced at the turn of the century by these new philosophical ideas, in opposition to the view of the

13. In countries like Germany, where the concept of the state was more developed, the link between state and society was much more defined. However, in Britain there was no workable concept of the state. '(H)aving no framework with which to construct a sense of direction and accomplishment from diverse serial initiatives, the use of collective authority for social purposes mystifies rather than clarifies.' (Bolderson and Mabbett, 1991, p.66).

political economists that centralised intervention was an unwanted imposition on the liberty of the individual freely to pursue his own welfare.

The implication of this shift was a concept of social justice, in which the different elements in the social organism might better cohere with a measure of redistribution of resources (Ogus, 1982, p.170). The material need, in their eyes, would become the basis for the moral improvement. Therefore, the redistribution of income was the prime social need. If the task of the reforms in the first years of the nineteenth century was that of making distinctions between the genuinely poor and the lazy, the aim of the social reforms in the succeeding years would be the treating of poverty in a more humane and effective way, making the poor more independent, more 'moral' (Birch, 1974, p.14).

The Theoretical Discovery of the Poor Law's Failure

Society's changing attitude to poverty and unemployment relied upon the new discovery of the causes of poverty and, particularly, unemployment. This significant discovery owed much to the research, based on empirical studies rather than on pure speculation, adopted by social scientists during the second half of the nineteenth century (Ogus, 1982, p.160). The *laissez-faire* theory previously adumbrated by the political economists was regarded as much too abstract and not once in accordance with social reality, the cause of hardship was to be found in the inexorable law of economics, not the moral improvidence of individuals (Gilbert, 1966, p.23).¹⁴

Charles Booth and B. Seebohm Rowntree

Booth and Rowntree were the two outstanding figures among those who adopted the new empirical approach which revealed facts about poverty which were to have such a marked influence on the appreciation of the need to take some alleviating measures outside the Poor Law. Based on his survey, carried out from 1886 to 1903, of the living conditions of the people in London, Booth, the Liverpool ship-owner and manufacturer, found that over 30 percent of the population had an income below what he considered adequate for their support. More significantly, he invented a calculation of needs for the average family which was something between 18 and 21 shillings a week and used this as an objective criterion in defining poverty.

14. In the early 1840s about 20 percent of able-bodied persons were the receivers of poor relief because of 'insufficient wages', and the rate of pauperism tended to be highest in occupations where casual labour predominated (Woodward, 1962).

In Booth's arguments and conclusions there was a powerful message. Along with the appearance of mass unemployment in the closing years of the nineteenth century, came the growth of socialist societies and more militant unions. The trade union movement, in contrast to the individualistic and self-help associations of the mid-nineteenth century, had a rapidly increasing membership at the end of the century, and the larger unions of unskilled men would demand more from the state than legal protection; they believed in the principle of collective bargaining and expected more positive social reforms. On the other side, much larger industrial and commercial concentrations needed greater intervention and full protection from the state. The growth of a new collectivism in the two major forces of modern society made the intervention of the state more acceptable.

Aroused consciences of the both sides of industry made the revived Liberal radicalism, in the early years of the new century, the leading force in constructive efforts to persuade the state to meet the challenge. Yet political responses before 1906 were limited and still mainly local. The thought and work in the nineteenth century of Bentham, Mill and Green had prepared the ground for the twentieth century's trend. However, it needed more revelation and example for society to fully accept them, and look for national rather than local solutions. In this sense, Booth played an outstanding role at the turn of century. He pushed towards a solution of the late Victorian dilemma: between the belief that the widespread relief of poverty undermined personal responsibility and fostered immorality, and the belief that poverty was dangerous to the political and economic foundations of the state. Although Booth was an individualist, he argued that the individualistic community was obliged to take the responsibility, for its own sake, of the lives of those who for whatever reasons failed to live independently at an acceptable standard. He maintained that help such as a pension of five shillings a week at sixty-five as he advocated, would stimulate rather than weaken the play of individualism.

His importance for the twentieth century, as a pioneer of dispassionate social investigation, relies on his contributions to the understanding of the causes of poverty. He related poverty to its environment and undermined the view which connected it to personal or moral failing. His interpretation of poverty was to have far reaching effects on its treatment in the twentieth century; the belief that the level of subsistence of the poor was most threatened by the competition of the very poor. His hope of blending the individualistic virtues of the nineteenth century with the collectivism of the twentieth century helped to shape the Liberal attitude to reform in 1906.

Rowntree carried out a similar survey in York as early as in 1899 and its result was published in 1901. His investigation only focused on working-class households. As a

socially concerned businessman, his concern with poverty arose from a dissatisfaction with the condition of the poor and the intolerable disparity in control of resources which caused those conditions. With the aim of understanding the nature of poverty, Rowntree divided the families in poverty into two groups: a). Families whose total earnings were insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency; b). Families whose total earnings would be sufficient for the maintenance of merely physical efficiency were it not that some portion of it was absorbed by other expenditure, either useful or wasteful. These two groups were described by him as 'primary' and 'secondary' poverty respectively (Rowntree, 1902, p.X). While the 'primary' poverty was caused by low incomes, the 'secondary' poverty was related to the conditions under which the families were living (Rowntree, 1902, p.144;. Viet-Wilson, 1986, p.76). His distinction between primary and secondary poverty was designed to prove that deprivation was in part caused by low income not by improvidence. According to him, 27.84 per cent of the whole domestic population of York were living in poverty, a large majority of it (17.93 per cent) were falling under the 'secondary' head (Rowntree, 1902, pp.111,117).

In his study, Rowntree presented the 'scientific' description of poverty. A research chemist by training and practice and a pioneer of social research into poverty, he had no intention of changing the definition of poverty as a deprived life-style, but only of discovering its extent and nature. He meant to use persuasive methods in nutritional science to provide a more plausible explanation, because scientifically-proven minimum subsistence expenditures were irreducible. His paradigm of poverty confirmed Booth's findings about the urban poverty which were derived from complex economic and social factors and had implications that state action was required to raise incomes. Thus his views on policy to combat deprivation were progressive and redistributive (Veit-Wilson, 1986, pp.95, 69-71).¹⁵

From their social surveys, Booth and Rowntree showed that personal character deficiencies were not the primary cause of poverty. They confirmed that there were various strata among the working class. There were, first, the enfranchised skilled artisans and trade unionists; Second, the respectable poor, or the 'deserving poor', whose predicament lay in forces beyond their control, who made efforts to be

15. Winston Churchill wrote about Rowntree's report on poverty: 'I have been reading a book which fairly made my hair stand on end. Consider the peculiar case of these poor. Although the British Empire is so magnificent, they would have been happier if they had been born cannibal islanders in the South seas... They would have been healthier if they had been the subjects of Hardicanute.' (Quoted in 50th Anniversary of the Beveridge Report 1942-1992, p.3).

independent of the Poor Law; Last, 'the residuum of casual workers, loafers and unemployables'. It was the respectable poor who were liable to 'be infected by contact with the residuum during periods of social distress, and as a result moral and physical degeneration would set in.' (Hay, 1975, p.4). It was therefore argued that this group should be provided with better treatment than was available under the Poor Law. Under the circumstances it was legitimate to introduce social insurance, which could benefit the respectable and incorporate them into society and strengthen their resistance to the blandishments of socialism, while, at the same time, the deterrent effect of the Poor Law could be retained and to do this would be in the interest of society generally.

The Impact of the Boer War and the Measures Adopted by the Different Parties

The growth of the British economy, compared with Germany and the United States, became relatively slow in the late nineteenth century. From the 1890s onwards a deep concern in Britain was reinforced by revelations about the health of army recruits during the Boer war. A high rate of rejection during medical examination of a good cross-section of the nation, by the conclusion of the Boer War in 1902, gave 'the shock to complacency' (Hay, 1975, p.20) and highlighted the poor health of army recruits disclosing 'a senseless, heartless waste of humane resources' (Birch, 1974, p.22). The Report of the Interdepartmental Committee on Physical Deterioration of 1904 supported Rowntree's conclusions to his study of York -- 'a low standard of health prevails among the working classes. It therefore becomes obvious that the widespread existence of poverty in an industrial country like our own must seriously retard its development.' (Rowntree, 1902, p.303).

The Tariff Reform

The feeling that imperial greatness and individual degradation went poorly together was spreading and the belief that social reform and national welfare could improve the nation's strength in a competitive modern world was a growing consciousness among Conservative reformers. In contrast to the Liberal's policy which advocated free international trade and low levels of government expenditure and taxation, the Conservatives argued for a more stable and potential economic order. In 1903, Joseph Chamberlain directed the campaign for the introduction of a new system of tariffs. It included imposing import duties to protect the domestic economy, securing additional government revenue, promoting imperial welfare and solidarity, reducing certain food taxes, and financing measures of social reform. For most Tories, trade protection in the

form of Preference for Empire, would secure elastic revenue and therefore public money, that the accomplishment of social reform schemes needed, would be assured. Therefore, the system offered to solve many conservative problems and expressed the important conservative aims of controlling the party and increasing the power of the Empire.

The tariff reform was the Tories' response to the challenge of the collectivism and materialism of the emergent radical Left who saw an individual himself often as the victim of unjust economic arrangements and had inclinations towards economic hardship. Ffords (1990) says that tariff reform, as one of the modern political methods, presented a form of surrogate collectivism and shared many of the features of its enemy. One of them was the willingness of political leaders to present themselves as great benefactors of the people by promising to increase popular standards of welfare by means of the manipulation of state levels. Joseph Chamberlain saw the task of good government as that of developing national and imperial resources of all kinds and intended to develop a policy of national and imperial greatness, through which the conditions of the poor, for too long a stain on that greatness, would be improved. It therefore represented an important challenge to the Free Trade radicalism of the revived Liberalism. The election of 1905 had increased the proportion of Tariff Reformers in the Conservative Party and they insisted that if the country were to return to Protection, unemployment would fall as foreign competition declined.

The 1905 Act

The early months of 1904 were marked by an abnormally high level of unemployment averaging some 5.7 per cent and it continued to rise to 7 per cent by the end of that year. The delegates at the annual TUC (Trade Union Congress) Conference in September exhibited a lively concern about the worsening situation. Although there were still those who argued that unemployment could be offset by persuading everyone to join a trade-union, this view scarcely accorded with the more radical sentiments of the majority of delegates. The organisations, the SDF, TUC, ILP (Independent Labour Party) and the Liberal opposition pressed the government to take immediate parliamentary action and ask for more permanent measures for solving the problem of the unemployed.

Forced by a political coalition, which was created both in the House of Commons and outside, e.g. organised labour, the Marxist Social Democratic Federation, etc., Walter Long, the President of the Local Government Board, proposed to co-ordinate and extend their activities in the winter of 1904-5, in order to provide for the respectable able-bodied and avert the request for a national measure to deal with unemployment (Harris, 1972,

p.153). He generated positive legislative proposals on 24 January 1905 which were enacted by the Conservative Cabinet as its Unemployment Workmen's Act. According to his proposal, the unemployed would be paid with the money raised from the rates.

Long pointed out that the introduction of the Unemployment Workmen Act of 1905 was attributed to popular pressure imposed on the local authorities and by the agitation of many local authorities who had called his attention to the plight of the unemployed (Brown, 1971a; 1971b, pp.44, 45). In 1905, the Labour Party made a general commitment to two principles on unemployment: that each man had an inherent right to work, and that the state was financially and morally responsible for the unemployed (Brown, 1971b, p.72). Sydney Buxton, a radical Liberal, Churchill's successor at the Board of Trade, reported to Sir Hendry Campbell-Bannerman, the leader of the Liberal Party, that Long's proposals were a great concession to the campaigns for the equalisation of rates and for the assumption of the state responsibility towards the unemployed (Harris, 1972, p.158).

The Act created destitution committees in large towns and gave local authorities permission to levy a small rate to provide public relief works for the temporarily unemployed people. But it failed to reach the areas of poverty exposed by Booth and remedy the weaknesses of the Poor Law (Birch, 1974. 23). The Cabinet refused to finance the public works out of the rates, and believed that distress committees could organise a more effective use of voluntary contributions raised in the period of distress by the Lord Mayor's Fund and similar appeals. This revealed the Government's intention to deal with the acknowledged problem with a limited commitment on public funds (Hennock, 1987, p.154). In practice, the Act was a failure. Beveridge found that the majority of those relieved 'were normally on the verge of distress'; its idea of providing relief work for temporarily unemployed artisans was discredited (Hay, 1975, p.49).

The Labour Party's Right to Work Bill of 1907

During 1903 - 1905, the Liberal leaders had come under heavy fire from labour and socialist writers for failing to produce an unemployment policy. Although the Liberal Party had established an unemployment committee late in 1904, this did not produce any generally accepted policy, nor did it act as a stimulant to the Liberal rank and file. The Liberal Party concerned itself with the reforms proposals in a broad range, for example, old age pensions, employers' liability, and national insurance, but what the party was mainly preoccupied with was land programme. Liberals' resistance to social reform was more due to their difficulties in conceiving 'how the state could play a constructive role in

solving problems.' The articulated 'growth theory' of social justice was unavailable 'even though we could see its implicit reflection in the imperialist response of British reformers to the Boer War' (Ashford, 1986, p.101). They became interested in the problem of unemployment only when Long put out his proposal. When unemployment got worse in 1905, the Conservative government had at last introduced legislation, and the Liberal leaders, mainly for political reasons, only reluctantly began to take a more active interest.

Unemployment did not play a very important part in the election campaign of 1905 and the Liberals just gave rather vague and imprecise expressions of sympathy for its victims. Gilbert's answer to the question of why social reform was never a major election issue is that the two major parties (the Conservatives, and the Liberals) were aware that they could get involved in an auction on social reform and made a tacit bargain not to compete (Gilbert, 1966, p. 449).

However, there was a change in spirit and emphasis and it can be forcefully illustrated by the Liberal success in 1906 election. The enormous Liberal majority that resulted from the general election, and the return of fifty-four labour representatives (twenty-nine of them belonged to the Labour Party), signaled the moment for bolder and more far-reaching labour legislation than anything contemplated in the previous Parliament (Hennock, 1987, p.84). Lloyd George acclaimed their victory in the election which gave them a majority of 346 as a constitutional revolution, and for the Conservative leader, A.J. Balfour, their defeat was a sign of a change with the looming force of socialism evident on the Continent. He realised that the influence of the new group of 29 Independent Labour MPs was to heighten the awareness of social problems and the sense of urgency. According to Bruce, the result of the election was hardly even a constitutional revolution. It was an expression of reaction against nearly 20 years of Conservative rule. Social reform was not an election issue, yet its ground had already been prepared by the trend to collectivism and growing public consciousness which was stimulated by the recent legislation, the Unemployed Workmen Act (Bruce, 1968, pp.163-4).

The reforming edge of the new Liberal Government was blunted by the Conservatives who had a huge majority in the House of Lords. The Liberal's piecemeal reforms had done little to improve the material condition of the people and the worsening unemployment. By the winter of 1906-7, the Liberal leaders felt the need to accelerate the Government's progress towards social reform in order to oppose the Conservatives and secure a full six-year term of office (Harris, 1972, pp. 264-72). In 1906 Lloyd George

enunciated the principle of social justice which was to form the inspiration for the coming reforms:

‘the law which protects those men in the enjoyment of their great possessions should, first of all, see that those whose labour alone produces that wealth are amply protected with their families from actual need, where they are unable to purchase necessities owing to circumstances over which they have no control’.¹⁶

Under pressure by and on behalf of the unemployed, the different parties worked out different policies to deal with the problem of the men out of work. Keir Hardie, from the Independent Labour Party (ILP), affirmed that the Labour Party in the Commons would take up vigorously the issues of unemployment and old age pensions which had been ignored by the Government. The Labour Party produced their own Unemployed Workmen’s Bill introduced by Ramsay MacDonald on 9 July 1907. It was the product of close liaison between the Labour MPs and the trade unions.

The aim of the Bill was to use funds paid for out of general taxation to provide for the temporarily unemployed through no fault of their own, in order to remove their distress and to protect them from the stigma of the Poor Law. The Labour Party based its scheme on the following thinking: if work and maintenance were provided for the registered unemployed by the municipal authority, financial difficulties would appear, as by 1908 the voluntary relief fund had become inadequate and the local rate payers felt unable to bear the financial burden; the policy based on a national scale but administered at a local level was presumably more acceptable, therefore ‘where to get the money to finance public work on a necessary scale’ was a serious problem which had to be considered by the politicians. Even more than aged pauperism, unemployment tended to be the greatest burden in the localities which were least able to pay for its relief. ‘[I]t was constructed on the same basic principles that had been accepted for old age pensions in 1908, that of taking a deserving group of the needy out of the Poor Law and making provision for them by grants out of general taxation.’ (Hennock, 1987, pp.155-6).

The Bill failed to make progress after its first introduction and was defeated on the second Reading by 267 to 8 on 16 July 1908. Asquith, then acting Prime Minister, and other ministers refused to accept the Bill and decided to postpone any action until the appearance of the Report of a Royal Commission. However, its significance should not

16. *Slings and Arrows*, 1929, p.5. Quoted in Ogus, 1982, p.18.

be underestimated: it forced the state to assume responsibilities to readjust the economic system which results in poverty and made the Government to believe that they must produce an alternative scheme.¹⁷

The Challenge of the Popular Movements and the Change of the Attitude of the Liberal to the Problem of Unemployment

The Labour Party's 1907 Bill was related to their dissatisfaction with the Government's failure to work out a programme to tackle unemployment. The Labour Party understood the importance of its commitment to fight for the unemployed and began its public campaign in July. Ramsay MacDonald outlined the defects of the Unemployed Workmen's Act of 1905 and its poor administration under the Liberals in a pamphlet published in July and Arthur Henderson blamed the Government for its reluctance to adopt the Labour Party's Bill if it could not have one of its own in Parliament. The Labour Party was not alone in its efforts to publicise its Bill. They were joined by trade unionists who would 'stand by the Unemployed and the Labour Party's Bill!'¹⁸

The Government remained unmoved by these demonstrations of dissatisfaction. The Government's perspective might be represented by that of Burns, who was President of the Local Government Board, but expressed little concern with the rising volume of discontent about his administration of the Unemployed Workmen's Act. Burns' unwillingness to amend the 1905 Act in 1907 was based on his view that 'it is to extend the virtues of pauperised dependency and to inflict ... a serious blow on the morale of labours'.¹⁹

Yet, the Labour Party's campaign for the unemployed was so successful that the Government dared not ignore the problem much longer. The original introduction of the Right to Work Bill was seen as a sort of goad to provoke the government into producing a positive unemployment policy. The Liberal Government would be compelled to bear in mind when considering how to replace the 1905 legislation, in particular, when the Unemployed Workmen's Act expired in 1908 (Brown, 1971b, p.84). 'The early presentation of practical legislative proposals is required,' said Asquith when he wrote to the Liberal candidate at a by-election in Newcastle concerned at the worsening

17. Socialist Review, 6 (Apr 1911) 87-8

18. LP. The Labour Party and Unemployment (1908).

19. BM, Burns Papers, Add MSS 46324. Diary, 12 May 1906. See Brown, 1971, p.8.

unemployment. He told the King that the 'right to work' principle was 'obviously inadmissible', but felt that something should be done for the sake of appearances.²⁰

The continuance of labour pressure, the level of public interest, the violence of unemployed agitation, and hence the large anti-government vote on 30 January 1908 obviously alarmed many Liberals. Faced with political and economic necessity and the pressure of social reformers, the changes of the Liberal Government in 1908 brought two men into prominence: Winston Churchill, President of the Board of Trade and Lloyd George, the successor of Asquith at the Exchequer. This was regarded as a further indication of the Government's embarrassment over the Right to Work Bill.

The development of a new, long-term unemployment policy, implied by these ministerial changes, became more and more urgent as the depression deepened. By June 1908 the unemployment index had risen to 7.9 per cent, the figure was double the average for the previous ten years, and violence broke out in several cities. By August 8.5 per cent were out of work, the figures had reached the highest level since 1893, and as the winter approached the unemployed became increasingly more militant. The radicals in the labour movement demanded industrial action and the number of strikes multiplied. The signs of violence alarmed many who perceived behind them the influence of socialist agitators.

The rise in the numbers out of work and the spread of violence urged the cabinet to deal with the unemployment situation. On 14 October, a small committee consisting of Lewis Harcourt, Winston Churchill, Lloyd George, Reginald McKenna, Herbert Gladstone, Sidney Buxton and John Burns was established to draw up a list of proposals for immediate implementation. When he discussed the introduction of the Liberal's pension policy, Fraser (1984) argues that there was always a strong element of political motivation in Liberal social policy. The Liberals' two years in office had produced disappointing results and the threat to Liberal superiority of a growing Labour Party was becoming manifest. Political expediency therefore chimed with social concern to make 1908 an appropriate moment to introduce pensions. Winston Churchill and Lloyd George were deeply concerned about social problems, as Lloyd George said: '[it] is time we did something that appealed straight to the people -- it will, I think, help to stop this electoral rot and that is most necessary.' (Quoted in Fraser, 1984, p.142).

20. BL, Asquith Papers, 5, fl 4. H. H. Asquith to the King, 11 Mar 1908. Hennock, 1987, pp. 154, 155.

The Reports of the Royal Commission on the Poor Law 1905-9

Social research and the growing social concern with poverty made it clear that the poor relief provided by Poor Law in the early years of the twentieth century was far from being satisfactory. The Poor Law was under intense strain and failed to achieve its primary aim of reducing the number of those requiring it through the disbursement of public assistance. It offered no facility upon which to build an institution for the care of the unemployed. It tainted everything it touched (Gilbert, 1966, p.27). According to this view, the conclusion was clear: the Poor Law system could not be retained (Bruce, 1961, p.163).

The obvious failure of Poor Law to provide a humane and constructive solution to the many problems of poverty, especially among the unemployed, forced serious social thinkers and different political groups to search for alternatives to it and for improvements to the system. This eventually led to legislation introducing labour exchanges and unemployment insurance. However, first came a Royal Commission on the Poor Law, appointed by the Conservative Government late in 1905, to investigate the entire operation of the Poor Law and the different measures for combating the unemployment problem. The need for revising or reaffirming the principles of 1834 had become more urgent when the penalty of disfranchisement was a potentially meaningful deterrent to the receipt of poor relief and guardians were increasingly faced with the conflicting claims of democracy and deterrence (Harris, 1972, p.245).

Against this background, the Conservative Government set up the Poor Law Commission. The Commission was composed of a cross-section of those concerned with the poverty problem: The permanent heads of the Local Government Boards of England, Scotland and Ireland, which supervised poor relief, and representatives of trade unions, religious bodies, charitable organisations, and the Fabian Society. The Commission produced two reports. In the Majority Report, it recommended the modification rather than suppression of the Poor Law and the removal from its jurisdiction of certain categories of unfortunates. A minority of its members, including Beatrice Webb and George Lansbury and Francis Chandler, were not satisfied with the terms of reference and decided to make an inquiry into the causes of poverty. They produced a Minority Report.

There were differences between the Minority and Majority Reports of the Commission 1905-9. While the Majority Report attempted to modify the principles of 'less eligibility' of 1834 and sought to give most power to stringently controlled voluntary agencies, the

Minority wished the state to assume the major role, favouring its fundamental interference with the labour market. The Majority were positively in favour of unemployment insurance which would include unskilled and casual as well as organized workmen. They advocated voluntary rather than compulsory labour exchange scheme because they were more sceptical than the Webbs about the political feasibility of reforming the habitually and willfully unemployed.²¹ The Minority's policy for the unemployed centered on the compulsory organisation of the labour market, education and discipline for the unemployed, and penal repression for the willfully idle. They did not promote insurance. The Majority advocated moral discrimination in the treatment of poverty, the deserving poor being looked after by the voluntary agencies and the less deserving poor being treated in a harsher way by recognised Poor Law Authorities, to be renamed Public Assistance Committees. The Minority, influenced by the Fabian ideas, connected poverty with the shortcomings of society itself rather than the individual faults of poor people, and believed in the abolition of destitution by sound and enlightened social policy.²² They insisted on the destruction of the Poor Law, transferring its work to local specialist committees.

In spite of these differences, both reports are of vast importance --'they crystallise past, present and future attitudes to the whole question of poverty' (Birch, 1974, p.24). The Liberal leaders, including Asquith, Haldane, Churchill and Balfour, were not publicly committed to the idea of Poor Law reform until they received the Reports from the Royal Commission. Churchill came briefly under the influence of the Webbs in 1908, and his decision to take William Beveridge to the Board of Trade was due in part to the Webb's advice. For both sides, the Poor Law's existing form of service need to be changed and suggested the transfer of some of its functions to local authorities.

There were a number of common characteristics in the Reports of the Royal Commission: 1). There was formal recognition of the fact that the poor were not a single group for whom a general system of relief was appropriate: poverty was rather the consequence of a number of social risks which were to be sharply differentiated; 2). In so far as individual liberty was an insufficient guarantee of individual welfare, collectivist

21. Cd. 4499/1909, Majority Report, Part VI, Paras. 636-50, 653-8. Quoted in Harris, 1972, p.260.

22. In an article in *The Crusade*, January 1911, Sidney Webb argued, in contrast to Beveridge, for the minority commissioners, that unemployment is to a large extent preventable under competitive industrial conditions and is mainly due to defects of industrial organization which it is fully in the power of the state to remedy, if and when it chooses. And based on this new information, '*we are now as a nation morally responsible for the continued existence of the great army of 'out-of-works' in our midst in a far more direct and unmistakable sense than ever before*' (Webb's italics). Quoted in Beatrice Webb, *Our Partnership*, ed. M.Cole and B. Drake, Longmans, 1948. See Birch, 1974, p.103.

solutions were inevitable; 3). Attention was clearly focused on prevention and the social provision of benefits in kind rather than on financial relief. In this respect, social welfare measures involving financial benefits, including social insurance, were complementary to the main thrust of state intervention; 4). National rather than local administration was essential.²³

The Liberal's 1909 Bill on Unemployment Insurance and Labour Exchanges

By 1909 the Government had developed some positive measures of its own. This was, in part, due to the embarrassment it had suffered in 1908 through its failure to produce any realistic counter-proposals. Lloyd George and Winston Churchill were both aware of poverty and the challenge of the Labour Party. But they were also aware of the difficulties associated with rapid and radical change.²⁴ They had to find their own resolution of the choice between a desirable and a possible basis for the modern state. The result was a policy which consisted of three components: a national system of labour exchanges, state-subsided unemployment insurance and national resource development. An outline of this policy was submitted to the Cabinet by Churchill early in December 1908. Draft Bills were submitted to the Cabinet on Labour Exchanges in January 1909 and on Unemployment Insurance in April 1909.

The Liberal proposals posed an obvious challenge to the Labour Party, which had really done little more than state a principle and outline machinery by which it might be achieved. By 1909, the energies of the labour alliance, channeled for the past two years into the struggle for the Right to Work Bill, had begun to diversify. The time and energy which the labour movement had devoted to propagating their own ideas were increasingly absorbed by these new proposals.

23. Discussions on the two Reports, See Ogus, 1982, p. 182; Harris, 1972, pp. 260-1; Birch, 1974, pp.23-6.

24. In Cardiff on 11 Oct. 1906, Lloyd George said:

"...If at the end of an average term of office it were found that a Liberal Parliament had done nothing to cope seriously with the social condition of the people, to remove the national degradation of slums and widespread poverty and destitution in a land glittering with wealth; that they had shrunk from attacking boldly the causes of this wretchedness, notably the drink and this vicious land system; that they had not arrested the waste of our national resources in armaments, nor provided an honourable sustenance for deserving old age; that they had tamely allowed the House of Lords to extract all the virtue out of their Bills, so that the Liberal statute book remained simply a bundle of sapless legislative faggots fit only for the fire; then would a real cry arise in this land for a new party, and many of us here in this room would join that cry. ..." (Quoted in Birch, 1974, p.98). For Birch, this passage illustrates the importance of political considerations in shaping the social policy of the last Liberal Government in Britain. The Independent Labour Party was becoming 'a great and sweeping force' in Britain and was threatening Liberalism (ibid.)

These two measures were introduced with the purpose of facilitating the mobility and stability of labour in response to the demands of the market, achieving a more efficient organisation of the labour market and financing 'healthy and productive' employment.²⁵ The most potent argument for introducing the labour exchange system was the fact, stressed by Churchill, that it was a necessary preliminary to any insurance plan (Brown, 1971b, pp.125-6). Churchill believed that unemployment insurance could not relieve much of the burden of destitution. Through labour exchanges, a national distribution of available work would be made possible. He was assisted by two outstanding public servants. One was Sir Hubert Llewellyn Smith, Permanent Secretary to the Board of Trade, and the other was William Beveridge. The former devised the pilot scheme of unemployment insurance which Churchill developed after 1908 and the latter supplied Churchill with the framework of labour exchanges.

With the Labour Exchange, Unemployment Insurance and the National Development Act, the aim of the Liberals' policy for the unemployed was to streamline the normal market for labour, reduce unemployment and relieve distress among the unemployed. The Development Act of 1909 in fact undertook little job creation. The inaction reflected the influence of Ricardian doctrine: that there could be no overall deficiency in the demand for labour. Where contraction produced unemployment in some area there would be expansion elsewhere at the same time. The unemployed lost their jobs because of their undesirable personal characteristics. Thereby the constraint of the provision of relief work could find expression in the Liberal's strong resistance to public sector activity which was thought of as dangerous to the vigour of the private sector and protecting a negative view of the unemployed.

On 4 May 1911, the National Insurance Bill was introduced into the House of Commons by Lloyd George. The Bill was composed of two parts. Part One, Health Insurance, was 'derived much more directly from the concern for national efficiency at the turn of the twentieth century' (Hay, 1975, p.54). The scheme was complementary to the unemployment insurance, which could not have worked had those who had lost their jobs due to illness or invalidity been protected by it. It was not meant to tackle the causes of ill-health, but gave provisions for sanatoria and for expenditure on medical research. Although it was called by Lloyd George 'an ambulance wagon', it set the pattern for the social legislation of the next generation (Fraser, 1973, pp.156-7; Hay, 1975, p.54). Part Two contained the Unemployment Insurance scheme, which was to be compulsory,

25. Lloyd George, *Hansard*, 5th Series, Vol. 4, cols. 489-98. See Harris, 1972, pp. 277-278.

state-subsidised, flat-rate in contribution and benefit and organised on a trade basis. The primary purpose of the scheme was to protect workmen against trade fluctuations, which were, to a certain extent, predictable by the State but entirely outside the control of the individual workmen.²⁶

The principles of the Bill were attacked by some groups and individuals, for instance, Left-wing MPs, representatives of organised charity and the National Committee for the Prevention of Destitution, organised by the Webbs and the Fabian society. Their objections, however, had little influence on the Board of Trade's thinking about unemployment insurance. During the summer of 1911, the Board of Trade introduced a number of amendments and refinements of the individual Clauses for the Bill. They accepted the demands of a deputation from the Parliamentary Labour Party that the insured workmen should insist upon the standard rate of benefit and not merely 'current' wages, 'provided that it be made clear that...where the workman through incompetence is incapable of earning that rate, the individual test shall prevail.'²⁷ The equal rate of benefit to apply to all insured trades, was 7s. week for up to fifteen weeks of unemployment.²⁸

Although there was a small handful of dissident backbenchers who complained that the scheme would positively encourage unemployment or that its actuarial basis was conjectural and unsound,²⁹ the Bill was welcomed by people ranging from the Unionists to the Labour Representation Committee (Harris, 1972, p.29). From the end of 1909, the TUC and the labour movement had shown a keen interest in the scheme and the TUC decided to defend any insurance system for the purpose of integrating the unions.

James O'Grady, Labour MP for East Leeds, confessed in 1911 that the 1911 Act contained all Labour's proposals of the past twenty years, and although it failed to realise many of Labour's hopes, the Labour Leader, George Lansbury, could still describe it as 'the most socialistic measure on the statute book'.³⁰ For the insurance schemes, the claim was made that the proposed Exchequer contribution would be the equivalent of the Party's own demand for state maintenance.³¹ According to Gilbert (1965), the relatively easy passage of the Bill through Parliament was largely due to the fact, that there were no professional or profit-making groups whose livelihood was threatened by a state-

26. The Times, 5 May 1911

27. LAB 21 483/LE. (I)9169, H. Llewellyn Smith to J. Ramsay MacDonald, 13 Oct. 1911.

28. National Insurance Bill, 21 Nov. 1911, Seventh Schedule, p.121.

29. Hansard, 5th series, Vol. 25, col. 651.

30. LL, 12 Sept 1912.

31. LP, Ann Rep, 1909, 93

controlled system of unemployment insurance (pp.127-48). Under the careful management of Board of Trade officials and with the unexpectedly easy consent of the Grand Committee, the Bill was given its third reading in the House of Commons and was given the royal assent early in December 1911.

Part Two The 1911 Unemployment Insurance Scheme and the Decision Making Environment of Britain

In this part, I examine, in Section One, what were the major features of the 1911 Unemployment Insurance scheme and, in Section Two, the important roles played by the different sections of society and their ideologies. From this account, I attempt to see how the policy was influenced by the Liberals' determination to solve the problem of unemployment and by their consideration of what was politically and financially possible. Part of the answer can be derived by considering factors which influenced the Liberals' attitude toward the social problems discussed in Part One.

Section One The 1911 Unemployment Insurance Scheme

According to Ogus (1982), the notion of social insurance represented a satisfactory compromise between the two polar views of welfare as individualist and collectivist. While the former based their judgment on encouraging an individual's effort for the greatest happiness through the exploitation of the free market, the latter insisted on the redistribution of resources from the richer to the poorer or from those less susceptible to the particular hazards covered to those more at risk (p.18). Social insurance also gave rise to a new form of relationship between the individual and the state, since the right to benefit existed independently of any particular government (p.183). Winston Churchill regarded it as 'the future of democratic politics' (Birch, 1974, p.31). It required a new form of administration and led to further economic intervention; it also brought about new relationships between the worker and his employer, and between the citizen and the state. For the former, the new relationship went beyond the simple cash wage, for the latter, the worker could rely on membership of the community for welfare if his insurance foundation was insufficient.

Contributory

According to the scheme, the payment of unemployment benefit would be based on past performance in employment, and on financial contributions from the individual himself. In legal terms, it could be regarded as a contractual right. In moral, and cultural terms, it incorporated the traditional puritan, capitalist virtues of thrift and foresight. Meanwhile, in certain other respects, the scheme marked a significant advance towards collectivist values. Contributions paid by both employer and employee for some future contingency had an impact on the employment relationship since this embraced the long-term consequences of loss of employment.

For Lloyd George, insurance, with contributions from employers, employees and the State, was the obvious method of financing the scheme because the cost of the non-contributory old age pension scheme had made it obvious that any comprehensive scheme could not be financed by general taxation. According to Beveridge, the contribution from the State was justified because the unemployed were supported by the community in any case and because it disarmed 'trade union jealousy' and the complaint from the regular and efficient that they were supporting the irregular and inefficient (Harris, 1972). According to the report of an actuary, who examined the Bill on behalf of the Labour Party, it would be 'advantageous for trade unions to join the scheme because the administrative costs would be borne by the state, and they would save because the contributions were small compared to the benefits' (Brown, 1971b, pp.156-8).³² Beveridge defended the practice of extracting contributions from employers on the grounds that the provision of social insurance should be reflected in the cost of production, and because it was desirable in the interests of administration and labour relations that employers should participate (Ogus, 1982, p.22). With contributions being made solely by employees, it ignored the interests and responsibilities of industrialists. In 1908 Churchill said, 'unemployment is primarily a question for employers....their responsibility is undoubted, their cooperation indispensable'.³³

The contributory principle could be interpreted as a means of both broadening the basis of taxation, the Treasury ideal, and getting the political support of the working class, in Winston Churchill's words, 'to increase the stability of our institutions by giving the

32. Some, such as George Lansbury, the Labour leader, Will Thorne, a Labour M.P., a member of the Parliamentary Committee of the Trade Union Congress and the Labour M.P. William Tyson Wilson, argued that workers would actually bear the cost since the state could use tax to finance its contribution and the employers could make up their cost by increasing prices (Justice, 27 May 1911).

33. Quoted in Harris, 1972, pp.303-304.

mass of industrial workers a direct interest in maintaining them.'³⁴ The financial basis of the Liberal Government's insurance scheme was unsound. The risks of misfortune were not assessed on an actuarial basis and the premium was fixed as the result of political decisions. The Government could take large sums from normal taxation in order to increase benefit levels, and the more fortunate members of the working class would have to support the less fortunate. The Liberal Government wanted to use the scheme to meet sudden and unforeseen emergencies, but the scheme could not cope with mass unemployment and when money was devalued, the state had to take drastic action to ensure a subsistence-level income for all regardless of contribution conditions.

Compulsory

In the initial debate, support for the alternative approach of voluntary insurance administered by the trade unions and subsidized by the Exchequer was widespread. Yet, the voluntary insurance scheme had a number of shortcomings: the benefit only covered the privileged elite of skilled and highly paid workmen, the nature and amount of benefit varied and it would hardly have any effect on national trade cycles. Asquith recognised that sole reliance on voluntary action was invariably accompanied by a lack of security, partial protection and less than universal coverage, as it provided security for some by means which others could not emulate; when universal provision became crucial, the priority of compulsion would be reestablished (Hennock, 1987, pp.8-9).

The inference drawn from the failure of the only foreign experience, that of St Gallen in Switzerland, was that a compulsory and comprehensive scheme was doomed, primarily because of actuarial difficulties: it was impossible to calculate the risk of unemployment, particularly in certain industries. Voluntary unemployment insurance plans existed in many European cities by the first decade of the twentieth century. But only the St. Gallen program in north-east Switzerland was a compulsory one. Because unemployment was higher than expected, better-paid workers resented having to contribute to the benefits of many more contributors from the lowest income group, and also because St. Gallen just demanded contributions towards insurance from the worker, but not from the employer, workers quickly fell behind in their payments to the insurance fund, and the scheme was bankrupt two years after its establishment in 1895 (Sinfield, 1983; Gilbert, 1966). It was possible for the designers of the British unemployment insurance scheme to draw inferences from its failure.

34. Beveridge 1SS., Parcel 2, Folder C (ii), 279, item 28. Quoted in Harris, 1972, p. 366.

Llewellyn Smith thus concentrated on a compromise plan: compulsory insurance for all workers in certain industries including ship building, engineering and construction with contributions of 2 1/2d (1 p) each from the worker and his employer, the state adding 25 per cent of the total thus contributed. These industries had in common that they were liable to cyclical or seasonal unemployment rather than chronic unemployment or underemployment. Protection in the form of insurance was therefore not only desirable but also manageable. Although some unions pressed for the inclusion of other industries on the grounds that this would promote decasualisation and make the measure more defensible, their arguments were defeated because of the extra cost which worried Lloyd George. 'Thus when the question of the Bill's scope was raised by Labour members in Parliament it was pointed out by government spokesmen that it already embraced a third of the adult male working population, the rest either being in unions which paid unemployment donations, or employed in trades which were not prone to fluctuations in the labour market.... In addition, it was argued that the scheme was experimental and before it could be safely extended, more actuarial information had to be acquired.'³⁵

Flat-rate Contributions and Flat-rate Benefits:

The principle, flat-rate contributions, was easy to reconcile with a liberal individualist philosophy: contributions which varied according to capacity to pay would have involved a substantial redistribution from richer to poorer workers (White Paper 1944). It also conveniently reflected the notion of social solidarity: 'in their capacity as possible recipients of benefits the poorer man and the richer man are treated alike'.³⁶ The Liberal Government intended to achieve a political consensus at a time of rising conflict in the political and industrial world. The success of the British scheme was judged by its ability to protect the better-paid and better organized workers from having to subsidize their lower-paid and higher risk colleagues (Sinfield, 1983). However, contributions had to be fixed at a level which the lowest paid workers could afford.³⁷ As a consequence, unless the contributions from the employer and the Exchequer were to be at a disproportionately higher level to meet the increasing need of living expenses, this would inevitably constrain the level at which benefits could be paid.³⁸

35. c/o Mrs. J. Clay, Buxton Papers, Unemployment Insurance Memorandum, 16 Mar 1911. See Brown, 1971, p.146.

36. Beveridge, 1942, Social Insurance and Allied Services, Cmd. 6404, para. 273.

37. Above, para. 283- 286

38. This was perhaps the main reason for the failure of the National Insurance system in the 1950s and for the replacement of flat-rate by earnings-related contributions. The unemployment insurance scheme provided a level of benefit which was not enough for a would not be sufficient for the unemployed during the period of the postwar depression.

As far as the original arrangement for the payment of benefit is concerned, criticism was made of the difference in the proposed level of benefits by some workers. Building trade workers, in particular, resented this because they would get a lower rate according to the schedule (6s (30p) per week for building workers, 7s (35p) for engineers). They argued that benefits should be consistent with contributions which were flat-rate. William Matkin, the secretary of the Union of Amalgamated Carpenters and Joiners, urged the building unions to press for equality. And it was also regarded by the Joint Board as inconsistent if benefits were unequal when the contributions were the same. After one year's internal negotiation, the request was finally accepted by Buxton on behalf of the government, and the Bill was amended in ways favoured by the Labour Party, for instance, benefit was made uniform, contributions from young apprenticed workers were reduced, and the scheme now covered those in the scheduled trades who were aged more than sixteen, not eighteen as originally intended. The net result of these changes was an increase in the state contribution of £100,000 (Brown, 1971b, p. 159).

The principle of flat-rate benefit, paid on the basis of assumed need rather than in relation to the individual's earning loss, was the main feature which distinguished the continental system of social insurance from its British counterpart. And this was consistent with the view at that time that social insurance was to provide nothing more than a 'life-belt' for survival during periods of temporary interruption of work. The British policy was both to preserve work incentives and to encourage voluntary provision above the minimum.

Section Two The Different Roles Played by the Different Groups and the Parties

Fforde (1990) argues, in terms of a wider study of the major forces of the modern British politics, the period (1886-1914) can be regarded as the watershed years. All different forces appeared to an increasing degree on the political stage and all different ideas were put in the lines of inquiry (pp.6-7).³⁹ According to Harris (1972), the demand for a 'national policy' came from three sources. They were: radical groups within the Liberal Party, the organized labour movement and the Royal Commission on the Poor Laws and Relief of Distress. As far as the new Liberal ideas on unemployment were concerned, Harris argues that they can be understood in the context of 'a much wider revolution in

39. They include: 'Central government expansion and democratic advance, materialistic perspectives and state growth, welfare legislation for restructuring society, populist politicians and political patronage, trade unionist pressure and parliamentary Labour' (Fforde, 1990, pp.6-7),

the Liberal attitude to social administration' during the 1900s -- a consciousness of the need to relinquish the 1834 principles (p.212).

The significance of these different factors which were reflected in the social reforms should be considered organically. The interplay between them was a significant motive which pushed the Liberals into finding a practical answer to the problem of the inadequacy of the existing system and determined the Liberal government's strategy for dealing with social problems and the challenges they faced.

The Liberal Government

In the early twentieth century, social reform in general and unemployment insurance in particular, depended upon, to a considerable extent, the attitude of influential elites within the Liberal Party to social problems, especially unemployment. Harris (1972) argues that there were three explanations for the Liberal Party's change of attitude towards social reform. The first was external political pressure, the second was a shift in the internal distribution of power within the Government and the third was the gradual redefinition of the social questions at stake.

The introduction of his Health Insurance scheme to the House of Commons in 1911, Lloyd George said, was closely related to public opinion which had been profoundly influenced by the thought and teaching of the last 20 years. He said that he had the good fortune to be 'carried forward on a side of social pity that was only waiting for a chance of expression'.⁴⁰ The recovery of some of the paternalism since the late nineteenth century, in regard of creating statutory policies in the fields of industry, public health and education, can be related to the political philosophy led by T.H.Green and John Stuart Mill.⁴¹ Therefore, in the late-Victorian and Edwardian period, the Liberal Party was not totally bound up with the Victorian *laissez-faire* but also influenced by the collective thinking.⁴² This change also had pragmatic origins, which was about 'the real or

40. Lloyd George (1911), *The People's Insurance*, p.152. Quoted in Bruce, 1968, p.162.

41. Green argued that individuals and institutions were a part of the community and the aim of collective well-being was more important than the pursuit of private interests. Developing Benthamite ideas, Mill also maintained that the organized community could promote the interests of its members while still preserving much of the liberty of the individual (Birch, 1974, p.16).

42. In his 1885 speech in Glasgow, 'The Campaign for the Unauthorized Programme', Joseph Chamberlain showed his impatience with the '*laissez-faire*' tradition of the Liberal Party and his awareness of the power of the new electorate and suggested the development of collectivist policies. He said, "[p]olitics is the science of human happiness, and the business of a statesman and of politicians is to find out how they can raise the general condition of the people; how they can increase the happiness of those who are less fortunate among them.there is some reason to doubt the perfection of our system

apparent constraints of democratic politics and the new definition imposed on urban and rural problems by empirical research.' (Harris, 1972, p.212).

The Government had turned its attention to social problems in 1907. The first evidence of this new trend was Herbert Asquith's promise to introduce Old Age Pensions in February 1907. Churchill had been considering the possibility of introducing labour exchanges and social insurance on the German model some time before he renewed his connection with the Webbs in February 1908. The reconstruction of the Cabinet in 1908 resulting from Campbell-Bannerman's retirement provided an opportunity for Churchill and Lloyd George to put into practice their idea of transforming the Liberals into the 'party of the nation'. In this context of new ideas and new policy-makers, a national policy on unemployment was developed.

The form of the Unemployment Insurance and Labour Exchanges, from Gilbert's point of view, owed little to extra-parliamentary discussion. They were almost entirely the result of the energy and enterprise of men in the Liberal Government, e.g., Herbert Asquith and Lloyd George, who saw in social reform the way to glory for themselves and the Party (Gilbert, 1966, pp.234, 249). Aroused by the reports of Charles Booth and Seebohm Rowntree and the findings of the Physical Deterioration Committee after the Boer War, Lloyd George said in 1908, '(i)n so far as poverty is due to circumstances over which the man has no control, then the State should step in to the very utmost limit of its resources.'⁴³ The Budget introduced by Lloyd George in 1909, which proposed heavier and more varied taxation than ever before for supporting social reform, were one of a few issues which were of considerable significance for the growth of the welfare state before the National Health Insurance Act in 1911 (Birch, 1974, p.30).

Hennock (1987) argues, British unemployment insurance and health insurance, established as a substitute for the Poor Law to protect the families of the poor from want, were derived from two related considerations of the politicians. One was the intention to preserve the economic and military resources of the nation in order to cope with international rivalry, the other was the need to restrain the citizen-voter from falling into the class of paupers. Within the Liberal Party, the argument that industrial prosperity and imperial strength could be maintained only by a healthy and relatively content working

when in this, the richest country in the world, one in thirty of the population at every moment are unable to obtain the means of subsistence without recourse to the parish, and one in ten at the same time are on the verge of starvation." Quoted by J.L. Garvin, *Life of Joseph Chamberlain*, Vol. ii, Macmillan, 1933, p.67. See Birch, 1974, pp.91-2

43. Lloyd George, *Better Times*, 1911, p.52. Quoted in Bruce, 1968, p.163

force 'rendered social reform much more palatable to commercial interests' (Ogus, 1982, p.69). In his work, Gilbert also linked social reform with the campaign for national efficiency (Gilbert, 1966, p.77). The term 'national efficiency' certainly helped to give the Liberal reforms the status of a respectable political issue (Harris, 1972, p.218), yet, the Liberal's support for particular measures cannot be attributed solely to considerations of efficiency (Hay, 1975, p.30).

Harris (1972) points out that 'in tracing the evolution of a national unemployment policy it is difficult to point to the decisive influence of any single set of reforming ideas or to discover any logical sequence of institutional change' (p.62). It is incorrect to ascribe the liberal reforms to an advance of 'collectivism', since the action taken by the state was derived less from ideology than from the practical failure of unemployment relief based on voluntary provision at a local level. On these grounds, Harris (1975) concludes that the motivation and aims of the Liberals were primarily pragmatic, 'evoked partly by the fear of being politically outmaneuvered and partly by the practical inadequacy of existing forms of unemployment relief.' (pp.362-3).

When the Liberals tried to crystallise their ideas in the practicable legislation, the factors listed above (such as the economic situation of Britain, the incapacity of Poor Law to solve the problem of unemployment and the reshuffle of the Liberal Government) influenced the decision makers, the influence of the traditional Liberal ideology was still noticeable. Although they were glad to accept some ideas from people who produced the Minority Report, such as the Webbs, both Churchill and Lloyd George were keen to give any measure of social reform a distinctly 'Liberal' identity. The formulation of the Government's 1911 unemployment insurance scheme was rooted in liberal doctrine. In striking a compromise between the traditional liberalism and the new collectivism in the development of the welfare state, the continuation of the profit motive was ensured, the natural interplay of economic forces was modified for the purpose of preserving political and social stability, and the ills of an industrial society which had developed with little concern for the welfare of the ordinary man was attempted to be rectified (Slack, 1968; Birch, 1974, p.5). The Liberal unemployment policy was intended to preserve and enhance the free market and to promote labour mobility and working-class independence by imposing a new discipline on industry by central government (Harris, 1972).

The Liberals still emphasised 'individual thrift' and while they were in favour of State intervention, they asserted that unemployment benefits should be treated as a floor upon which private plans might build. Therefore, the redistribution of wealth was limited; the provision of subsistence did not create full economic equality, but enabled individuals to

do as much for themselves as possible. They were influenced by a view which 'stressed the organic relationship between the state and individuals, in opposition to the unwanted imposition on the liberty of the individual freely to pursue his own welfare' (Ogus, 1982).

The unemployment scheme insured only against the universal, impersonal, economic forces that affected employment (Gilbert, 1966, p.281). Sir Hubert Llewellyn Smith, Permanent Secretary to the Board of Trade, felt that the scheme ought to encourage regular employment and ought not to discourage self-insurance. It would have to be tried out first in the trades that lent themselves most readily to insurance; and the Treasury, in order to give stability and to justify a certain amount of state supervision, should contribute to the insurance fund. He argued that the frequency of claims would be determined by the economic circumstances of the individual's particular trade, and by the general conditions of the business world. The workers within a given insured trade, who lost employment through their own misconduct, would be ineligible for unemployment insurance. If scheme was to be made voluntary, the improvident and unemployable would be the only ones who would insure against unemployment, therefore it had to be compulsory.⁴⁴

The Conservative Party's Strategy to Deal With Their rivals' Policies

In general terms, in the years between 1886 and the Great War, the Conservatives were aroused by fear of the reintroduction of state patronage along with the democratic processes. 'A belief in political freedom; a stress on economic liberty; and a firm faith in social duty founded in Christian concepts were thus key features of the Conservative mentality.' (Fford, 1990, p.28). They regarded the protection of private property as a primary purpose of the state, considering this very important to economic advance. The Party was also influenced by the Christian tradition, wanted an integrated society with shared values and benefits practising the ideals of duty, aid, responsibility and concern. After Boer War in 1902, in particular, since 1906, among the Conservative reformers, the idea was growing, that social reform could save the strength of the nation in a competitive modern world; the responsibility of the government for the material condition of the people was greater.

The Conservatives expressed their sympathy for grievances or harsh conditions but did not propose any corrective interventionist action. This tactic was indicative of their

44. L. Smith, "Economic Security", *Economic Journal*, Dec. 1910, p.518.

principled opportunism. It 'involved projecting an image of concern' (ibid., p.37). They charged the National Insurance Act, the Liberal's prominent collectivist measure, with voluntarism, obstructionism and opportunism. A USRC (the Unionist Social Reform Committee) was established in February 1911 by the Tories to combat and obstruct the provisions of the Bill which the Right did not like. Like the tariff reform, the USRC was the Conservative's response to the challenge of collectivism and democratisation and attempt to maintain the economic and social order which was under attack. The Unionist Social Reform Committee argued against state aid and supervision and also objected to adopting measures such as insurance against unemployment because it was believed to hurt some interests of its best and most powerful adherents. Yet, it overcame the frequent reluctance of the Conservatives to adopt the methods of their opponents and employed modern styles of organisation and statist arguments.

The Influence of the Labour Party and the Function of the Trade Unions as a Pressure Group

According to a German document, produced by the Ministry of the Interior, the Liberal Government showed a consideration for working-class institutions and their pressure; it was eager to provide, by German standards, a substantial state contribution for the purpose of getting support from the working class and the Labour Party, which would support its majority in parliament. The document even suggested, the principles of the flat-rate contributions and benefits reflected the strong influence of socialist-communist ideas (see Hennock, 1987). Hay (1975) also argues that British politicians introduced social reform in the early twentieth century in order to prevent workers turning to extreme socialist or syndicalist solutions (p. 25).

In some other scholars' points of view, the working-class, in contrast to their German counterparts, did not want reform. In the late nineteenth and early twentieth centuries, the major parties were not forced into social reform by massive popular demand or fear of revolution but were able to introduce specific policies to gain a tactical advantage over other parties. 'The rival parties of the Left fought to establish the orientations of politics.' (Fforde, 1990, p.106. Also see Gilbert, 1966, p.25-26). Pelling (1969) argues that the working class at the beginning of this century was apparently hostile to state institutions and the extension of the power of the government. The notion of the supremacy of state responsibility and the idea of a bureaucracy ready to impose it on the population at large was alien to the British liberal and democratic traditions. Moreover, the trade union movement gave the Labour Party their support not for social reform but for its own power and status.

The British trade union movement accepted the structure of the capitalist society and merely sought to achieve the best interests for its members from it. Due to the tradition of self-help and political freedom, an incredible adaptability of the governing class throughout history and the Fabians' influence, which favoured the gradual introduction and spread of Socialism, British collectivism was not likely to adopt the radical form of socialism or a highly Conservative protectionism in Bismarkian fashion (Cole, 1955, Birch, 1974, pp.5, 17; Ogus, 1982, p.169).

Hay (1972) argues that the above opinions can be grouped into three categories. First, the working class 'as a whole' did not want reform; second, the organised working class did but the unorganised did not; and, third, while there was a demand for social reform, it was limited in scope and quite within the power of traditional parties to provide it. He concludes that it is impossible to say that the social reforms of the period from 1906 to 1911 were simply the inevitable result of working-class pressure, although such pressures should not be regarded as being unimportant. Rather, their influence has to be examined in each case. In terms of the causes for the ruling classes changing their attitudes to social reform in early twentieth century Britain, working-class attitudes and pressures were only one element (pp. 27, 29).

In my view, working class demands for improvement with their potential as a political force which could threaten social order could not be ignored by the Government. The British welfare state was closely attuned to the response from those in government as well as sensible and moderate democratic pressures from below.

From the second half of the nineteenth century, the trade union movement was experiencing a transition from its individualistic and self-help associations to a union which had rapidly growing numbers and a more forcible voice for greater protection from more positive social reform. Through extensions of the franchise and the protection of the vote through the ballot, the trade unions became a solid base which gave the Labour Party organisational, financial and cultural support after 1900. The distinct trade union culture gave a new dimension to the nation's political structures and the consequences are historic. After the general election of 1906 British politics witnessed a significant change. In the changed domestic power balance, the Labour Party became an important parliamentary force and trade unions flexed their political muscle.

The Labour Party was at its peak in 1910 with a 7% force and becoming an established strength in the House of Commons (by the 1910 Act it had forty MPs). Its radical

manifestos, the continued growth in trade union membership (which more than doubled between 1900 and 1914) and the sharp rise in industrial unrest of the organised labour, all provoked alarm on the Conservative side of politics. Both the Labour Party and the Trade Union Congress had produced extensive social reform programmes of their own by the early 1900s. These Left reformers held up the prediction of a new future combined with collectivism in Great Britain; they aimed for the possible change of socio-economic structures, the achievement of prosperity with the active power of the state and advancement of civilisation by government intervention. Collectivisation was also sanctioned by the popular will. Their support for left-wing measures was stimulated by a demand for immediate improvement in individual material well-being through governmental intervention. The popular faith in the state to cure society's ills was created by the achievements of the Victorian system.⁴⁵

Inside the Government, there were a few political figures who were fully aware of the problem of the electoral threat from Labour and were active in the campaign for changing the living conditions of the people. Lloyd George, who was born in poverty, saw the moral and emotional challenge of socialism and the need to meet it. Churchill also showed his capacity to catch the mood of times by saying that 'I do not want to impair the vigour of competition, but we can do much to mitigate the consequences of failure.'⁴⁶ They were concerned with the economic improvement of the working class for the sake of national efficiency and a solution to social problems, whether or not the working class itself demanded social reform strongly. Like Gladstone who won the battle for political and economic freedom in the nineteenth century, Churchill and Lloyd George fought for social freedom in which a decent standard of life for the majority of the people in the twentieth century played an important part. The initiatives of New Liberalism between 1906 and 1911 such as the Agricultural Holdings Act in 1906 (which increased the rights of tenant farmers), state funded Old Age Pensions in 1908, the Labour Exchange in 1909, the Trades Boards Act in 1909 and the National Insurance Act of 1911, were accompanied with developments in the Labour movement.

As a pressure group for the unemployed, the Social Democratic Federation was the first to be interested in the problem of the unemployment which occurred after the Boer War and took frequent initiatives to draw successfully attention to the unemployed. Yet

45. The prestige of politics in the Victorian low government was related to its '(f)iscal rectitude, bureaucratic efficiency, public spirit, political high-mindedness, uncorrupt statesmen, the whole apparatus of the Italian dream of *buon governo*'. These elements engendered the public receptivity to the enlargement of the government and their trust in it to carry out great tasks, and '(t)he Left invoked the legitimacy of state institutions as arguments for their transformation.' (Fforde, 1990, p.161).

46. Churchill, Randolph. *Winston S. Churchill*, vols. i and ii, Heinemann, 1967. See Birch, 1974, p.27.

because of the weakness of the organisation, and internal disputes on 'the question of whether or not short-term palliatives should be ignored for the sake of achieving socialism', the SDF was prevented from undertaking any sustained national campaign and its efforts were hampered (Brown, 1971b, pp. 164-169). Eventually, the much larger labour organisations -- the TUC, the ILP and the LRC -- took over the SDF's position in conducting propaganda and agitation on the question. The initiative passed finally into the hands of the new Labour Party and the change of role was complete once the LRC established a firm foothold in Parliament in 1906. The Labour Party's emphasis on unemployment put John Burns, the Labour MP, into the cabinet but he was soon eclipsed because of his refusal to produce any substantial unemployment policy in the face of the pressure from both within and outside the Party. The Labour Party was also successful in making unemployment a living political issue in 1908 when the Liberal Government, based on 'a tacit recognition of the success of the Labour propaganda campaign of 1907-8', held the first discussion on the new legislation.

As a result, the Liberals were compelled to give the matter some thought. Harold Spender, the radical journalist, who had accompanied Lloyd George to Germany, wrote an article in 1909, which was seen as an unofficial announcement of the social reforms of the Liberal Government. In the article, he said:

'It is not enough for the social thinker in this country to meet the socialist with a negative. The English progressive will be wise if, in this at any rate, he takes a leaf from the book of Bismarck who dealt the heaviest blow against German socialism not by his laws of oppression...but by that great system of state insurance which now safeguards the German workman at almost every point of his industrial career.'⁴⁷

So the introduction of the government programme in 1910-1911 'did represent the triumphant culmination of the Labour campaign' (Brown, 1971b, pp.170, 73), even if the Government's action was based on the consideration of political expediency.

The parliamentary Labour Party, joined by the SDP and the Fabian Society, opposed the contributory principle of the 1911 scheme, but MacDonald's opinion determined the official party attitude. He argued, in a Labour Leader article, that low-paid workers would come to regard themselves as the objects of state charity and fail to join with their

47. Quoted in Gilbert, 1966, p.257.

fellows in order to improve their conditions, if they were continually asking for government doles and low or non-contributory insurance schemes, because this would perpetuate 'low wages'.⁴⁸ And as a result, at least half the parliamentary party were even against the abolition of contributions from lower-paid workers.

Part Three Conclusion

In order to understand Britain's decision-making process and the legislative debate on unemployment insurance, it is necessary first of all to review the conceptual development of the relationship between the free market operation and State intervention following the 1834 Poor Law Amendment Act and regard some administrative devices used to deal with social problems before the Liberal reforms in the first decade of the 20th century. The establishment of the Liberal measures, like the Old Age Pensions Act of 1908 and the National Health Insurance Act of 1911 in which the second part was the Unemployment Insurance, demonstrated the way in which the Poor Law was being supplemented and by-passed in the provision of social welfare.

After the 1834 changes in the Poor Law, concerns with social conditions developed as it became clear that economic advance was accompanied by a very unequal distribution of prosperity. The strict 'Workhouse Test' which allowed no variation in the treatment of the poor became unsuitable for the circumstances of the applicant and many of those compelled to rely on public relief were incapable of supporting themselves. Some degree of intervention by the State was regarded as unavoidable, to deal with social problems created by the industrial revolution which were seen as threats to the established order. Political economists, like Ricardo, and governments argued for state intervention in the free market although this was to be minimal, residual and a last resort to ensure the fairest and fullest operation of the free market economy. They still believed in the total efficacy of the free market and self-help and thought that there should be as few obstacles as possible for the competition which made possible Britain's industrial supremacy. Expenditure on health and welfare schemes was still mainly left to local and individual initiatives.

In the last quarter of the 19th century, supporters of *laissez-faire* were astonished by economic and social crises; they began to question the validity of the ethic which held that the losers in the competition were responsible for their own failings and could only be assisted by appealing to the charitable impulse of society, and the government need do

48. LL, 9 June 1911.

nothing more than ensure the availability of conditions of perfect competition. By the beginning of the 1870s, the principles of individual self-reliance and local self-government had been breached in the public health area. The case of poverty and unemployment during a period of grave economic uncertainty in the 1880s implied the necessity of state intervention as Alfred Marshall and D.G. Ritchie, the Oxford philosopher, argued. The thinking of political leaders also showed the same tendency. The consequence was the extension of the state responsibilities to an extent that would have been inconceivable in the mid-nineteenth century. Policies by the Conservative party in the 1880s and 1890s included Radical Programme of 1885 promised redistributive taxation to pay for the welfare reforms, land reform, free elementary education and compulsory compensation for industrial accidents for employees (Workmen's Compensation Act, 1897). Collective responsibility in other areas, such as old age, housing and unemployment, as a substitute for private means and market forces, began to be accepted as the legitimate concern of the state, and this acceptance surely damaged the dominance of *laissez-faire*.

This trend was encouraged by the discovery of poverty from first-hand surveys carried out between 1870 and 1901 by the Charity Organisation Society, Charles Booth and Seebohm Rowntree. These surveys revealed the fact that large numbers of people were living in poverty, that the old poor law and private benefaction were inefficient and inadequate. It was recognised that the economic pressures in general and unemployment in particular did not primarily result from personal moral failings as much as from external economic hazards in the operation of market forces. It was the result of industrialisation, and personal misfortune which was beyond the control of the individuals should be compensated for more collective legislation.

This discovery promoted a reappraisal of the role of the state in the administration of welfare. The changing attitude to poverty led the different groups in society to seek different remedies to the problem from the traditional Poor Law. This was thought to be necessary in particular when there was universal concern over Britain's inability to meet the challenge from overseas industrial competitors and the decline in the rate of growth at the end of the 19th century, indicated that the concept of *laissez-faire* was no automatic guarantee of economic prosperity. The recovery of national efficiency and the maintenance of the political stability of the country were considered as important issues.

The teaching of utilitarianism and other theories, the findings of the empirical studies of poverty and public awareness of the declining economy stimulated a general reassessment of the relationship between the state and the individual by adopting a

different approach from that of traditional individualism. The growing appeal of the parties in favour of social reform both reflected and encouraged a shift in the dominant ideology. However, the intentions of the interventionists cannot be explained solely in terms of the economic crises and the discovery of the poverty; politicians also recognised the need to satisfy a mass electorate and deal with the challenge of socialism. Many changes in the functions of the state were initiated by politicians as responses to strife, crisis and tension in the Edwardian era. There were dramatic developments in labour relations during the period. The different groups and the different political parties participated in the debates and worked out the various programmes, their interpretation of the problem and their schemes to solve it were influenced by their parties' and groups' ideologies.

The Tories assumed that the protection of private property and the maintenance of the existing system were the state's primary purposes, they also realised the importance and necessity of the state's obligation to improve the living conditions of the people. This originated from their unprincipled opportunism. Although the Conservative Party resisted state intervention, the Tory's Unemployed Workmen's Act of 1905 provided temporary work for qualified applicants through Distress Committees in all large centres. After their defeat in the general election of 1906, political considerations forced them to make some changes to their traditional ideology and their favoured system which had been shown to be unsuitable and was under attack.

The Labour Party's success refers to the fact that they made unemployment policy a living political issue through their campaign, particularly after 1907-08. The trade unions emerged as a powerful force at the beginning of the century in the face of continued economic stress and exerted their considerable pressure on politicians for reform. As the group who were most likely to suffer from deprivation and poverty caused by joblessness, they needed protection from the state the most. Their agitation about their situation which led to the increasing industrial unrest of the organised labour market became a serious public concern, and made the political parties realise that it was a potential threat to the system and that some measures of collectivisation for the sake of the well-being of the working class had to be provided. Like the 'national efficiency' crisis after the Boer War which persuaded the government to enact measures of greater care for children, the economic crisis and damaging industrial unrest paved the way for much of the far-reaching industrial legislation. The improvement of the living conditions of the working class seemed to become a urgent issue. So social reform also became a key issue in the political competition between the different parties. There was a strong political motivation behind their social policies. They attempted to establish a more

suitable or proper system than the Poor Law to provide the poor with state assistance; this was particularly crucial when the British public and politicians became conscious of economic challenge from other countries and the socialist influence which might threaten the order of its present system.

In this context, the Liberal government's awareness of the urgency of the issues encouraged it to search for measures to deal with the problems. The programmes of the Liberal Government between 1906 and 1911 were introduced as politicians' pragmatic reactions to economic and social pressures. They were influenced very much by the understanding of social problems by elite figures within the Liberal Party. Their attitudes reflected the long tradition of collectivism among progressive politicians, which originated in the intellectual and political disputes over the efficacy of the free play of market forces in the 1880s and 1890s and the continued increase of state functions after the 1890s. To secure minimum standards of welfare for all citizens would give the Liberals political advantages over the Conservatives in the battle for the working-class vote, and it would gain them support from the growing labour movement and the powerful Labour contingent in the Commons. In so doing, it would reinforce the ability of the state to meet the challenge of socialism. The result of the Liberals in the 1906 election was a revelation of such popular opinion.

The final form of the 1911 unemployment insurance scheme was basically decided by a few important figures in the Government. They showed active concern with social problems. The internal distribution of power within the Government in 1908 gave the progressive politicians an opportunity to fight for the realisation of their political ambition through social reform. Under the leadership of H. H. Asquith, the important figures, such as David Lloyd George and Winston Churchill, made the greatest contributions to social reform fuelled by passion and ambition. In the process of introducing unemployment legislation, they showed their political concern with the problem and were eager to respond to working class demands. For Lloyd George, the task of the 'New Liberals' was to remove the immediate economic causes of discontent in poverty, insecurity and bad conditions.⁴⁹ For Winston Churchill, 'Socialism attacks Capital, Liberalism attacks monopoly'.⁵⁰ William Beveridge's Unemployment, A Problem of Industry in 1909, argued that unemployment was a necessary accompaniment to industrial organisation; it effectively destroyed the individualist case and turned attention to the best methods of minimising unemployment and providing effective help for those already unemployed. His Labour Exchanges Act of 1909 was voluntary and the State

49. Lloyd George, *Better Times*, p.68. See Bruce, 1968, p.171

50. Speech at Dundee, May 1908, *Liberalism and the Social Problem*, See Bruce, 1968, p.155.

merely took over some sixty local authority or private exchanges; it was however the first state scheme.

Although Winston Churchill and Lloyd George took some advice from the Webbs, they intended giving their measures of social reform a 'Liberal' identity. The characteristics of the British Unemployment Insurance of 1911 reflected fundamental ideologies of those important figures within the Liberal Party. Their consciousness and understanding of the economic and political situations of the country during that period had been reinforced by the public debate, intellectual research and political movement; however, it was their basic conception and beliefs about the functions of the state and market system which played a crucial role in the outcome of decision making in that field. Their final proposal was designed to meet the increasing demands from the Labour Party and trade union movement, but at the same time, to avoid a radical offence to the Tories and therefore severe attack from the Party. Their determination to solve the problems of the working class in particular and their use of pragmatic strategy in the process of decision making ensured their acceptance of certain compromises which led to the modest scheme and also provided a basis for the passage of their proposal into legislation.

Much of their legislation was piecemeal and experimental rather than constituting an entire system of welfare. The reforms provided a basis for future initiatives; their innovations, like pensions and insurance, were integral to the establishment of the welfare state. As a contribution to social policy, unemployment insurance, like Labour Exchanges and health insurance, formed the basis for a new commitment to diminish the hardship of industrial society. At the same time they also avoided a radical change from the old tradition, mixing individualism and collectivism in an acceptable scheme. The Liberal Government hoped to gain the support of the working class through various social reforms while preserving and strengthening the free play of the market. They did not even dismantle the Poor Law which so many of its recipients hated. The old system was allowed to operate alongside the new one. The Government relied a great deal on local authorities, although Lloyd George and Winston Churchill intended to increase the central direction of public life. This was a very controversial issue among the Party. They were either suspicious of the direction of such policies, like its Prime Minister H.H. Asquith, or in favour of more powerful local authorities, like the individualist wing.

The Liberals failed to provide more compulsory and universal provisions which were needed. For example Sickness Insurance was only available to the insured and not to their families, while the Unemployment Insurance applied only to certain trades. It was compulsory for some 2 1/4 million workers but not universal, relating to trades which

were regarded as more vulnerable to seasonal or other fluctuations. The piecemeal and experimental scheme was meant to aid the skilled man and was not intended for the casual labourer. However, it rejected the individualist tradition which distinguished worthy applicants from unworthy and recognised the complexity and diversity of unemployment. While the Liberals accepted collectivism and state intervention, they did not give up their basic belief in 'individual thrift' and the profit motive. The Unemployment Insurance scheme was intended to ensure the efficient operation of free market competition and provide a base for private insurance. Although there was a contradictory reaction to the Liberal Bill within the Labour Party (and joined by the SDP and the Fabian Society, they campaigned against the Bill's contributory principle) the Party formed an alliance in supporting the measure and the attitude of their leader, MacDonald, was decisive in this matter.

With the attack on unemployment, the British Government entered for the first time into the life of the ordinary, adult, male, able-bodied workman. Yet, the measures adopted in 1909 and 1911 to solve the problems of unemployment never had the chance to prove themselves under the economic conditions for which they were designed. Unemployment Insurance was disrupted by the upheaval of the first World War. Later, the great depression of the twenties and thirties destroyed for a time the unemployment plan as a scheme of insurance and forced the Government to provide direct, tax-supported unemployment relief coupled with a means test, the famous 'dole'. With this experience behind him, Beveridge insisted in Assumption C of his report of 1942 that any plan for unemployment insurance should be coupled with a consistent government commitment to the maintenance of full employment (Gilbert, 1966, pp. 287-288).

Chapter Four

The 1934 Unemployment Insurance Scheme of Sweden

In this chapter, I discuss the introduction of the Swedish unemployment insurance scheme in 1934. In Part One, I give an historical review of the earlier period when the Swedes undertook a debate on the nature of unemployment and introduced various relief measures to deal with the problem. In Part Two, I discuss the main features of the 1934 scheme. In order to explain how the scheme came about, I pay particular attention to the different roles exerted by different groups within the society, to the ideologies of these groups and to other elements which exerted an influence on the characteristics of the scheme. The main conclusions are drawn in Part Three.

Part One The Policy Context

This part focuses on the social, economic and political factors which brought the discussion of unemployment relief onto the agenda and led to the introduction of unemployment insurance in Sweden. It is composed of two sections. Section One is a general introduction to the country and Section Two is a detailed discussion of some historical factors which changed the country's attitude towards unemployment as a social problem and the measures they had already taken to deal with unemployment before the establishment of the 1934 Unemployment Insurance scheme.

Section One A Brief Introduction to Sweden

Sweden is the fourth largest country in Europe, occupying an area of 173,349 English square miles. About 50 % of the land surface is forested and less than 10% is farmland. According to estimates for the end of 1932, it had 6,190,364 inhabitants. For many centuries, Sweden was ethnically very homogeneous and was perhaps the most unified people in the world before the Second World War.

As one of the oldest kingdoms in the world combined with ancient democratic traditions, Sweden has been a constitutional monarchy since the early 19th century. The parliament, composed of two chambers both elected by the people, was established in 1865. The First Chamber was elected by the members of the 'Landstings' (provincial representatives) and city councils, and electors of six towns not represented in the 'Landstings'. It was dominated by the upper class. The candidates were required to be wealthy. All the members of the First Chamber were elected for the term of eight years.

The Second Chamber was elected for four years by general election, but only a small part of the male population was eligible to vote and an even smaller proportion eligible to stand. The proportional representation method ensured that the conservative agrarian interests and the rising middle classes could exert some influence. The Social Democratic Party (SAP) and the Liberal Party, formed in 1889 and 1902 respectively, were aligned to fight for the suffrage and parliamentarianism for their first few decades. In 1917, Sweden adopted parliamentary government and introduced universal adult suffrage in 1921. At the 1921 election, five parties -- the Communists, Social Democrats, the Agrarians (changed to the Centre Party in 1957), Liberals and Moderates (Conservatives, inaugurated in 1904) -- captured seats in the Parliament, when universal suffrage was applied for the first time. The political power of the King had begun to shift to parliament and the government. Since then executive power has rested with the Cabinet (*Regering*) which is responsible to parliament (*Riksdag*).

The Swedish Parliament is the country's highest decision-making body and the prime representative of the Swedish people. It enacts laws, decides the amount and use of taxation and examines the Government's actions. The number of the Parliamentary seats allocated to the parties are in proportion to the number of votes they receive. A party must attract at least 40% of the votes in the whole country, or 12% in a single constituency, in order to gain representation in Parliament. Before 1973 the King acted with the advice of a council of state, the head of which is the Prime Minister. All the members of the Council of State are responsible for the acts of the Government. In accordance with tradition, the work of the Swedish *Riksdag* is, to a great extent, carried on in a non-partisan atmosphere. This is largely the result of the thorough attention given to all questions by numerous standing committees elected on the basis of proportional representation.

Until the turn of the century, every second Swede was living off the soil. Traditionally, farmers had good access to political channels and had been entitled to free ownership of land and forest. The country has always had a class of freehold farmers who were able in one way or another to influence the nation's government. Over the past century, assisted by a prolonged period of peace, Sweden has developed from a poor farming society into a technologically advanced welfare state characterised by a high degree of social equality and a high level of prosperity.

In the 1880s, industrialisation and urbanisation in Sweden inspired the first mass-political splits between rural conservatism and urban radicalism. However, while Swedish peasants joined by the industrial bourgeoisie, the civil service, the nobility and

the military, were the grass-roots of conservatism, the small farmers and rural craftsmen in the countryside also supported the liberal parties which were formulated amongst the free tradesmen and craftsmen of the cities. There was a growing gap in the second half of the 19th century between the richer peasants, who were the proprietors of more than half the lands and were to form a politically influential middle-class, and those rural proletariat of the landless persons. With the growth of industrialisation, the farmers found it difficult to make themselves heard in politics; in 1910 their representatives split from other parties and, in 1922, they formulated their own party under the name of the Agrarian Party.

The serious rural problems were eased by massive emigration and the process of industrialisation. Between 1865 and 1930, there was a large-scale emigration mainly to the USA. In 1930, the majority of the 1,300,000 Swedes who emigrated to North America went to the United States. By 1870 Sweden had 80,000 industrial workers (15 per cent of the population), by 1900 this had increased to 300,000 (Davidson, 1989, p.49). In 1934, the population of Sweden was about equally divided between the pursuit of agriculture and commerce and industries.

When industrialisation took off in Europe during the 19th century, Sweden was able to supply the resources necessary for factory building, engineering equipment and housing. The mining and metallurgical industries and the timber and wood-work industries made rapid progress and in the 1930's became leading and important businesses. During the 20th century, based on Swedish inventions and adaptations and making use of advanced technology, many new industries have emerged; the engineering sector and science-based industries are representatives.

Section Two Political Debates and Measures Taken by the Parties on Unemployment prior to the Introduction of the UI Scheme

As an advanced welfare state, Sweden or the so-called Swedish model has been an often-chosen research object for comparative social policy studies (Himmelstrand, 1978; Stephens, 1979; Scase, 1977; Korpi, 1983; Esping-Andersen 1985; Olofsson, unpublished book). According to Koblik (1975), however, it is not wholly true to assume that Sweden has always played a leading role in social reform or that there was a long historical background for welfare programmes. Only since the 1930s has the idea that it is government's responsibility to solve social problems replaced the liberal non-interference policy of the nineteenth century and, since then, significant progressive legislations through social reforms been introduced (Koblik, 1975, pp.332-3).

What follows is an historical review of the social, economic and political context in which the public debates on Unemployment Insurance took place in Sweden. The ideological influence of the dominant elites, the measures adopted by the different parties and the roles played by the trade unions and the labour movement will be given particular attention. I take account of the development of the ideas which accompanied the process of industrialisation, concerning the most appropriate means of solving their unemployment problem and arguments about the importance of the power structure and its role in the establishment of Unemployment Insurance.

Industrialisation, Social Problems and the Recognition of State Responsibility

The industrial revolution occurred relatively late in Sweden.⁵¹ The country was identified with poverty, unemployment and famine in the late 19th and early 20th century and a restrictive poor relief system, combined with 'Christian charity', was its social welfare. While majority of the population was struck continuously by economic hardship, a relatively small upper classes and nascent middle class were enjoying wealth of the country. When there was discussion of social legislation in Britain and Germany in the 1880s, the political preconditions for reform did not exist in Sweden then. The masses of the population were excluded from the undemocratic political process and the lower classes turned to the mass movements fighting for political and social rights (Davidson, 1989, pp.51, 60). The relatively late development of the economy and democracy, however, did not constitute a barrier to public concern. Intellectual and the political discussion of unemployment insurance in Sweden started at the same time as in Britain. From the beginning of the twentieth century, the government has embarked on a wide research programme of welfare schemes taking into account both the economic development of the country and the experiences of other European countries (Wilson, 1979).

The Poor Relief System and the Promotion of Unemployment Insurance in the Late 1800's and the Early 1900's

Throughout most of the nineteenth century, classical economic theory had the most powerful influence on policy makers in Sweden as in Britain. Thus unemployment was viewed as an accidental phenomenon resulting from minor fractions in economic relations and occasional bad harvests. The heart of the analysis of unemployment lay in political

51. Sweden was in its transition from an agricultural society to an industrial state between 1850 and 1920.

economy and Say's Law (first presented in 1803), which suggested that production generated its own demand and the only possible cause of extensive unemployment in society was that wages were set at too high a level.

As the only form of public welfare in Sweden for centuries, poor relief originated in the Middle Ages with a aim to control the lower classes, maintain people's will to support themselves and calm social and political unrest and maintain public order (Davidson, 1989, p.57). The 1918 new Poor Relief Act embodied a more generous attitude towards the poor, however, self-support was taken by the authorities as obligatory principle. In addition, a person accepting poor relief lost his right to vote (Forsberg, 1986, p.19).⁵² This arrangement was based on the belief that poverty and dependence were the result of individual shortcomings such as laziness. Therefore, humanitarian relief of distress based on the idea of Christian love should be voluntary and limited, in order to maintain an individual's incentive to self-help: only through industry and thrift that one could get rich. According to Ebba Pauli of the Central Association for Social Work in 1906, people should be educated to adapt to society rather than to change society (Koblik(ed.), 1975, pp.336-8).

However some people were considering alternative method to deal with poverty. They became aware in the 1880s of the fact that the traditional means to ensure the security for industrial workers were disappearing with the transformation from an agricultural to an industrial society in Sweden; the existing poor relief system was inadequate and they believed that the introduction of alternative measures such as social insurance was necessary. In early 1884, the first comprehensive social insurance bill written by Adolf Hedin was introduced in the Second Chamber of the Swedish Parliament. The bill was the first step in the development of social policy in Sweden. As a leading liberal figure, Hedin in the bill called for investigation of the Bismarckian social insurance approach of Germany, which provided compulsory state insurance for sickness, industrial accidents, old age and invalidity. Although the bill was unanimously adopted by Parliament, the paternalism in the Bismarckian scheme was almost immediately attacked openly by Hans Forssell, a leading Swedish Conservative Senator and Manchester liberal (1843-1901). He opposed any state intervention in the relationship between employers and employees (Olsson, 1990, pp.43-4). It was also attacked by the parliamentary farmers' group in the Second Chamber, as they feared the possibility of being taxed to support a scheme which would solely benefit industry (Heclo, 1974, p.181).

52. The rule last till 1945.

When economic conditions deteriorated and unemployment increased, a careful study of unemployment insurance was undertaken by a committee in 1895. It was set up by the small circle of liberal reformers in the country and its work was limited to the work relief system in Stockholm and other major cities. It drew heavily on the experiences of Bern and St. Gallen but the voluntary nature of the municipal insurance scheme was quickly disapproved by large employers. Outside Parliament, there was also a growing interest in the reality of trade cycles, which led to rising unemployment, of the mass popular movements since the last decade of the 19th century. Gustav Cassel's *Socialpolitik* (social policy) of the National Association of Social Work (the CSA), was probably the most influential in the early Swedish social policy discourse (Olsson, 1990, p.61). Founded in 1903, the CSA was strongly influenced by the idea of voluntarism, preventive self-help, and individual responsibility in social welfare. Cassel (1902) was critical of both dogmatic liberalism and socialism. He emphasises individual responsibility in contrast to reliance on the state. In his conception of social policy, voluntary organisations like cooperatives and trade unions play a central role. Both would make competition more social and efficient: consumer cooperatives would organize the demand side, while the unions would make supply more uniform. However, when the associations cannot make further progress, it is time for state intervention (ibid., p.63).

The new tenets, similar to those of Marshall and his followers in Britain, indicated a different perspective of explaining the occurrence of the short-term fluctuations in employment -- not just poor seasons and harvests but also poor markets for industrial goods that could prevent workers from securing an adequate income for themselves and their families. Government could use short-term palliative measures to clear away the obstacles for the market, and '[t]he most politically explosive of these palliatives was unemployment insurance.' (Heclo, 1974, pp.66-67). They argued that the best social policy was a policy which could provide favourable conditions for business. The precondition for state intervention was that its action would not be harmful to the operation of the market system in the country. This Liberal orientation gave birth to a series of legislated, voluntary social insurance schemes, with some modicum of public subsidy. For example, in 1891, voluntary private sickness insurance; in 1901, voluntary, private accident insurance (Davidson, 1989).

The Liberal Wavrinsky's Proposal of Unemployment Insurance and the Acceptance of the Insurance Principle in the Early 1900's

Swedish reformers had been stimulated by the German idea of social insurance from the end of the 19th century. A broad-based political consensus resulted from a free political climate of this country. As there were still intense social division and economic conflict, various groups (agrarian interests which were well represented in the political institutions, national administrators, intellectuals, businessmen, unions, etc.) participated in the dispute over the merits and shortcomings of social insurance (Heidenheimer *et al.*, 1976, p.216). However the debates in this field were very weak and did not lead to a positive outcome.

A handful of liberal reformers and civil servants played an initiating role on unemployment insurance in reaction to the emerging cycle of unemployment. The pattern illustrated in Hedin's motion in 1884 was typical until early in the 20th century. In 1900 when he introduced his motion on unemployment insurance for the first time in the parliamentary Second Chamber, Eduard Wavrinsky argued that it had become necessary for society to intervene in workers' lives because traditional patriarchal relations between employer and worker were vulnerable to the changes in society (Heclo, 1974, p.71). However his 1900 and 1901 motions were narrowly defeated in the Second Chamber. In 1906, unemployment insurance became a public issue in Swedish society. The first forceful collective pressure for unemployment insurance came from liberal poor law reformers of the Central Association for Social Work under the leadership of the noted reformer G.H.Von Koch. The Liberals favoured unemployment insurance because they regarded it as a means of promoting the 'self-help' principle of liberal reformers of the poor law. For the Liberals, it could also be used as a politically expedient means of defeating the Conservative government (*ibid.*, p.72).

From the autumn of 1907, the first major international economic crisis of the century began to be felt in Sweden; unemployment rose and remained at unusually high levels for the following three years. Only now did political parties become involved in the unemployment insurance issue, and under the same economic stimulus the Swedish legislature began its first extensive discussion of unemployment. Board of Trade administrators had undertaken the first Swedish investigation of unemployment insurance in 1907. Grunner Huss, one of the economists at the Board, emphasised the social responsibility for unemployment in his report in 1907:

Those who have worked diligently and willingly, but because of insufficient demand for their working power are subjected to need, ought to be provided security another way than through general poor law relief or private charity...It is unjustifiable that inability for self-support, the cause of which lies not in the individual himself but in social relationships, should result in the reduction of citizen rights which poor relief entails.⁵³

His views were probably influenced by those of his teacher, the famous neoclassical economist Gustav Cassel. He and his university friends, Gösta Bagge and Otto Järte, who were also students of Cassel, dominated the development of unemployment policy for the next generation.

In 1908, 1909, and 1910 Eduard Wavrinsky, a Liberal member sitting for Stockholm, the director of a large private insurance company, reintroduced his motion on unemployment insurance. The Social Democratic Party supported the amended motion, in which Wavrinsky recommended the Ghent-type insurance,⁵⁴ as it was an aid to unionisation. However, their efforts were effectively thwarted by the conservative Upper Chamber. The Conservative government rejected the unemployment insurance proposal in the Lower Chamber in 1908 and in the Upper Chamber in 1909 and 1910. They emphasise that the scheme would lend support to workers' wage demands by supporting strikers and deterring potential strike-breakers and unemployment insurance should be left to the unions.⁵⁵

Although the investigation that Wavrinsky had requested was not carried out, because of these party clashes, there was a shift in understanding of the causes of unemployment away from personal fault. The 1911 election campaign was the first time in which unemployment insurance was mentioned in a Swedish party election programme by the Liberals. The 1911 general election results gave the Liberals a chance to form their second government and the party's leader, Karl Staaf, undertook the prime ministership

53. *Promemoria angående Arbetslöshetsförsäkring.*

54. This type of unemployment insurance used public funds as subsidy to the existing union unemployment insurance plans. Discouraged by the experience of St. Gallen in the Swiss cantons, where the world's first compulsory unemployment insurance scheme had been experimented with in 1894 but had ended after the second year by a referendum because the fund had a deficit of 5,550 francs and the opposition of the better-off workers (related to the higher level of unemployment and a larger proportion of contributors of the lowest income class than expected), the union movement in Belgium intended to have a new variant of any obligatory unemployment insurance. In August 1901, the Ghent commune made the first grants to unions and to a 'thrift fund' for the unorganized workers (Heclo, 1974, pp. 70-1).

55. Första Kammar tillfälliga utskott, no. 1, Utlåtande no. 24, 1910, p. 7. Quoted in Heclo, 1974, p.74.

with a personal desire to carry forward reform work. The discussion in the *Riksdag* in 1912 on general pension insurance stressed the importance and urgency of increased security as an earned right rather than a measure granted only upon proof of need. Insurance benefit would not just be available in old age but also cover other situations, e.g. illness, accident, involuntary unemployment and so on, and it should have the character of a general national insurance.

Although there was a big disagreement between the proponents of poor relief and social insurance in the debates in parliamentary committees and in the *Riksdag* (Koblik (ed.), 1975, pp.339-340), political parties and groups reached a consensus through their representatives in the cooperative investigation. The pension proposals reflected their common aim of improving the existing poor relief system and the pension bill gained the support of all parties in each chamber. In 1913, Sweden became the first country in the world to have adopted a contributory, universal and flat-rate Old Age Pension. It was viewed as a reflection of 'a pre-industrial tradition of royal concern' bestowing uniform protection upon all citizens. It became a model for other social insurance schemes in Sweden in subsequent years (Heidenheimer *et al.*, 1983, p.216). However, the benefits were too low, the income test was too strict and special supplements of the poor relief type had to be introduced by the municipalities.

The Liberal cabinet agreed to establish the administration of unemployment insurance soon after taking office in 1911. The new Liberal Minister of Civil Affairs appointed Otto Järte, a Social Democrat, who wrote about the advantages of social insurance in *Tiden*, the theoretical monthly of the Social Democratic Party in 1909, to investigate the problem of unemployment anticipating that his report would form the basis for a government bill which would be brought before the 1914 Parliament. Järte and his colleagues drew up an unemployment insurance plan along the lines of the Ghent system. However, the administration's plan became the political victim when the Liberal government fell in the spring of 1914 over the entirely unrelated question of defence and the new Conservative government was preoccupied with the same problem. The impetus behind Sweden's first efforts at unemployment insurance was lost. Järte's 1915 report on the issue to the new government was quietly forgotten amid the urgency of avoiding participation in the first World War.

The Public Work of Unemployment Relief of the Conservative Government

With the expectation that the European War would result in the inevitable decline of world trade and thus massive unemployment, the Conservative government established

an Unemployment Commission (*AKStatens arbetslöshetskommission*) on August 10, 1914, to propose measures against the expected unemployment. The principal aim of the Commission was to relieve unemployment through public works. It was carried out on the following general principles: 'the work must benefit the State, a commune, or other public body, and must be justified for economic or cultural reasons but must not be such that it would be carried out normally by ordinary means; wages must form a comparatively large proportion of the cost; and it must be possible to start, stop, extend, or restrict the operation in accord with the fluctuations of private employment.' (Childs, 1936, pp.150-1).

In the Spring of 1916, the Commission began its first national work relief programme and expanded this activity during the following two years with payments below the normal market wage rate. Liberal economic doctrine still dominated within the Commission. The administrators believed in the moral and economic advantages of relief work for the unemployed more than other approaches, such as cash support, and 50-70% of the unemployment relief was given in the form of work or assistance. Their powers increased successively, especially during 1920-22, in which they were equivalent to those in regular government departments (Lindeberg, 1968, pp.320-1). During the three years after 1921, the Commission created state relief organisations to arrange public relief work for the unemployed and gradually undertook most administrative work to set the work, conditions and wage rates independently.

The New Pattern of Power structure and the Increasing Influence of the Social Democratic Party

The New Political Power Structure of the 1920's and the Incompetence of the Social Democratic Party

The 1920s was a period of political instability and minority governments in which very little social reform was undertaken in Sweden (Castles, 1978; Olsson in Flora (ed.), 1986; Davidson, 1989, p.91). Although democratic reform was accomplished with the achievement of universal suffrage, through the collaboration of Liberals and Social Democrats from 1917 to 1920, this only resulted in short-lived caretaker and minority governments in the 1920s. The Social Democratic Party established the first socialist government in Swedish history in 1920 for a period of six months. After the Social Democrats resigned in September, there were nine separate governments in the next twelve years, in all of which factionalism was prevalent. The interests of different groups offset one another, and short-term alliances depended on political convenience; there was

no rational pursuit of political ends or consistent ideological politics but merely a game of tactics. The *Riksdag* could not initiate any political programmes due to the lack of majority support.

With the economic dislocations following the First World War, a big depression began in Sweden in the autumn of 1920; the country suffered from economic recession and high unemployment. In the early 20s unemployment was over 20 per cent. Throughout the 1920s, even during the boom years from the mid to late 1920s, the unemployment figure decreased very little and hovered around 10%. It did not again fall below 10 percent until late in the 1930s (Landgren, 1957, p.15; Lindeberg, 1968, p.320; Heclo, 1974, p.94; Mendes, 1990, p.37). What measures should be taken against the unemployment crisis, in order to achieve a balance between the self-regulating effects of the free market and the regulatory function of the state for the economy, became a major concern for the political parties.

Measures of combating unemployment in the debate among the parties included higher relief-work wages, more state-township jobs and the introduction of unemployment insurance for industrial workers. Central issues were whether the payments of work projects for the unemployed should be below market rate or normal terms. The Social Democratic Party favoured the second alternative, while the Liberals believed in the former's efficacy for reducing unemployment, arguing that harmony in the economic system was inherent to market forces and to private ownership, the prospect of profits and wage differentiation. With regard to unemployment insurance, both the Social Democratic Party and union organisation argued for its introduction with state subsidies. It was acknowledged that help to the unemployed constituted support for the workers (Lindeberg, 1968, p.328). Their demand, however, turned out to be fruitless.

Under the heavy strain from persistently high unemployment, proposed unemployment insurance policies had been looked upon as a limited technique for improving labour market organisation in Sweden during the interwar period. Apart from this, there were several reasons for the SDP's failure over unemployment policy in 1920s.

Firstly, in the 1920s, they could not act as a dominant party to put their proposals into practice. Its unity with the Liberals came to an end after the accomplishment of the suffrage reforms (Davidson, 1989, p.91), and the political cooperation between these two Parties was replaced by a new political power structure in Sweden. While the Liberals, the Conservatives and the Agrarian party were allied on one side, the Social Democrats stood on the other. Although the Social Democrats headed several short-lived

coalition governments, they were too weak to implement employment policies. They were facing a united opposition from employers, the Conservative and the Liberal parties, who held liberal economic ideas. This collaboration was particularly evident when the Branting government of the SAP fell in 1923; in 1926, a Social Democratic government was also forced to resign on the unemployment issue (Lindeberg, 1968, p.322). The political cleavage in this area ruled out any major welfare reform for over a decade (Olsson, 1990, p.109).

Secondly, as far as organised labour is concerned, it had lost both members and support in the 1920s after the defeat of the 1909 general strike. The shattering event was to have consequences for many years and 'it was a long time before a working relationship could be established between the two sides with the government as friendly mediator.' (Childs, 1980, p.7). The most influential groups within the labour movement were reformist, but were unable to resist the combined strong opposition of administrators, bourgeois parties and employers' representatives.

As one of the interest groups who initiated the unemployment policy in Sweden during the depression following the First World War (Lindeberg, 1968, p.319), the Swedish Confederation of Trade Unions (LO) maintained that it was the legal duty of society to help the unemployed. They took unemployment insurance as their major demand and argued that public work should be kept for the non-members. This was different from the political preference of the SAP leaders who maintained their commitment to full employment policy. As early as 1913, the leader Hjalmar Branting and activist Gustav Möller introduced a proposal to parliament, which 'would now be called Keynesian (approach)...to ensure full employment through expansion of the public sector and the use of the fiscal policy' (Ginsburg, 1983, p.111). Although the proposal was ignored by parliament, its idea remained as a central part of Social Democratic doctrine. When political administrators accepted this new intellectual perspective, 'unemployment insurance recede[d] into the political background as a tool of economic adaptation rather than general provision' (Heclo, 1974, p.92).

Thirdly, throughout the 1920s, the SAP felt unable to deal with a difficult matter -- ideology. While the non-socialists were carrying on their successful defence of liberal doctrine, the Social Democrats, retaining their faith in Marxism, failed to take any major initiatives in any case and to formulate a practical programme to deal with unemployment (Heclo, 1974, p.92, Davidson, 1989, pp.91-2).

Based on classical Marxist analysis, the SAP insisted that the interests between capital and labour were incompatible and unemployment and capitalist crisis thus would be inevitable. This belief prevented the party from producing practical programmes and taking effective political action to counter the Liberal assertion of 'harmony'. They criticised the classical economic principles contained in the relief programmes proposed by the Conservative government in the early 20s (Mendes, 1990, p.38), however they had no answer back to the dominant explanations of the non-socialist parties that 'too high wages' were responsible for unemployment (Davidson, 1989, p.94).

Some Social Democrats accepted such claim that any work projects for the unemployed should offer lower wages than the private sector (Ginsburg, 1983, p.111). In March 1921, the SAP's parliamentary group agreed to LO's suggestion of state funding for trade union unemployment insurance funds, yet the SAP believed in the classical solutions, cutting wages to increase employment (Mendes, 1990, p.39). They found it difficult to find a balance between carrying out short-term social reforms, e.g. securing a fairer sharing of the national product in order to improve the living standard of workers, and at the same time, following the Marxist theory of conflict which they ushered in the final crisis of capitalist system and establishment of socialist society.

Last, the SAP could not get support from the powerful rural population -- the decisive factor for political development in the period; instead, their support was limited to industrial workers. During that period, the interest conflicts between industry and agriculture were acute. Especially by the end of the decade, agriculture's lag in income and profitability behind industry was greatly increased due to the effect of the international crisis.

Because of these difficulties, and due to their parliamentary weakness, the Social Democrats did not formulate any definite course of action during the 1920s. The Party argued for the introduction of state subsidies to encourage union unemployment insurance. But their proposal for a Ghent-type unemployment insurance plan was dropped in 1924. This result was related to the united opposition of Conservative, Liberal and Agrarian parties, economists and employers' groups and the Unemployment Commission. The bourgeois majority insisted that mass unemployment could be avoided only by using traditional economic measures: economy, retrenchment, and lower production costs -- particularly wages (Heclo, 1974, p.96). In the investigation established by the Social Democratic government in 1926, the Liberal, Conservative and Agrarian Parties' representatives led by economist Eli Heckscher argued unemployment insurance policy would lead to 'false' wage levels above the equilibrium point and

therefore actually increase unemployment. Poor relief was a valid form of aid applicable to the unemployed and relief work at below market wages was beneficial. The labour members of the investigation could not dispute the majority's analysis of the problem and merely argued for the need to adopt unemployment insurance and strengthened labour exchanges to deal with the problem.

In 1928, Swedish policy makers and civil servants turned their attention to the rapid expansion of British unemployment insurance; they argued that any unemployment insurance programme has a tendency to extend to relief and was dangerous for the national economy. The conclusion was that 'no action should be taken on the question.' (Heclo, 1974, p.97). Thus '(t)he deadlock on unemployment insurance was due not simply to a clash of political or economic interests but to a pervasive economic doctrine that no amount of expert investigations and compromises could circumvent. Attention and conflict focussed on unemployment insurance because no one could think of anything better to do than alleviate the symptoms of mass unemployment' (ibid., pp.97-8). An alternative mode of thought began to appear in the trade unions and in the left-led municipalities, and it soon came to attract a new generation of welfare intellectuals (Olsson 1990, p.74).

The New Policy Respective and the New Strategy of the New SAP Generation

As described, their ideological commitments prohibited the Social Democratic party from taking its own practical programmes to encounter the Liberal belief of 'harmony'. In the meantime, the predominance of traditional economic doctrines in Sweden was challenged by the younger generation in the party who decided to adopt pragmatic actions to combat the consistently high unemployment rather than adhere to Marxist dogma.

After the death in 1925 of Branting, the architect of Sweden's first Social Democratic government, Ernst Wigforss and Per Albin Hansson, were regarded as the two most important political figures. While the former was the party's leading expert in economic policy, the latter was the successor of Branting as the leader of the SAP in 1925. As one of the members of the Committee on Unemployment ⁵⁶ who played an active role in working on the first report, Wigforss was critical of the chapter dealing with the causes of unemployment. In the sixth version of the chapter written by him, Wigforss pointed out that, first, it was the market which set wages and the unemployed could not get a job with a wage below the market one; second, to be able to assess the effects of a wage reduction, it is not enough to study the labour market; studies of other markets and the

56. It was appointed in April 1927 by the government.

interrelations between the different parts of the economy are also necessary. Wigforss claimed that to increase purchasing power of a society by means of a high wages policy, rather than through the socialization of business, would 'pump up purchasing power' and stimulate the economy, and therefore lead to the elimination of unemployment (Koblik, 1975, p.285; Wadensjö, 1989, p.8; 1991, p.111; Davidson, 1989, p.96). Wigforss' attack on the traditional approach to the problem of joblessness had major implications for the forms of the would-be Swedish model of the welfare state and made him a pioneer in framing practical policies using Keynesian economics (Heclo, 1974, p.99).

The policy worked out by Hansson, Wigforss and Möller in 1930 was to replace the relief programme with an extensive public work programme paying normal wages. The policy was accepted by the party executive and the party congress, and marked the party's, and in the long run Swedish society's, new conception of what ought to be done. Adopting the Marxist approach, argued Wigforss at the 1932 Congress, prevented the party from adopting active policies. In order to meet the crisis caused by the Great Depression, the new unemployment policy rather than socialisation of the means of production was required. The Party's acceptance of the planned economic theory marked its departure from its ideological confusion and inaction of the 1920s (Davidson, 1989, p.98).

In Sweden, as in the United States, the depression was the main issue in the early 1930s. The different political parties developed their own proposals for the 1932 election. The bourgeois parties produced their manifestos on the basis of their traditional economic principles, 'doctrine of harmony', when economic conditions were getting worse. They believed that the economy would recover from the depression and rejected unemployment insurance. For them, interference with wage rates would lead to high prices and ultimately to economic crisis; therefore it was necessary for the state to keep its expenditure to a minimum and reduce the level of wages for relief work. Their ideology in 1932 was like that of the Social Democrats' in the 1920s, full of confusion and doubt. The Social Democrats, in contrast, campaigned for the election with convincing programmes. Through their new unemployment policy, which involved expanding public expenditure and providing for employment at normal wages, in order to increase purchasing power and hence demand, it was claimed that the economic problems would be solved.

Two reasons pushed the Social Democratic Party towards a new employment policy. One was the increasing pressure of LO -- the Federation of the Trade Unions: the coverage of

unemployment funds was raised from 38 to 55 per cent of the labour force by the end of the 1920s. The other was the new generation of party cadres that emerged in the mid 1920s, i.e. Ernst Wigforss, Per Albin Hansson and Gustov Möller, who generally preferred more interventionist employment policies. For them, governments influence employment by active political decisions, e.g. by increasing public spending (Olofsson, unpublished book, pp.98-9).

The SDP began to admit the necessity of state intervention to obviate crises and unemployment through the new unemployment policy rather than through socialisation of the means of production. The new economic policies of Sweden in 1933 reflected the influence of Keynes' ideas as set out in his pamphlets in the 1920s (Landgren, 1957). This ushered in an era when unemployment was transformed from a social policy question to an economic problem (Mendes, 1990, p.40). The policy itself was mainly composed of the scrapping of 'reserve labour', the abolition of the Unemployment Commission, the provision of relief work on a very large scale at normal wages, stimulating the economy and introducing state unemployment insurance (Davidson, 1989, p.100). The party won the second chamber election but did not have an absolute majority and their plans were rejected by the bourgeois parties who intended to resume power.

The Crisis Agreement of the Social Democratic Party and Agrarian Party

As a result of the 1932 election, the Social Democrats, under the leadership of Per Albin Hansson, formed their minority government. Considering the political difficulty of fulfilling their programme in the *Riksdag* and the urgency of solving these problems, they decided to cooperate with the Agrarian Party. They gave their priority to developing a new economic and unemployment policy and were willing to secure the support of rural voters through the regulation of agriculture. The two parties had to accept each other's programmes in certain critical areas, and each party had to make changes to their original proposals. One of the compromises was the exclusion of unemployment insurance from the agreement (Davidson, 1989, p.100; Koblik (ed.), 1975, pp.256, 269). The main reason for this seems to be that it only benefited industrial and not agricultural workers

The significance of the 1933 'crisis agreement' marks the beginning of the cooperation between the Social Democrats and the Agrarian Party which had been a prominent topic since the reform of 1909 which enfranchised petite freeholders and rural workers. Instead pursuing their aim of 1911 which was to establish a workers and farmers' party,

the Social Democrats intended to follow the policies which would be beneficial almost exclusively to industrial workers, and as a result, aroused resentments among agrarians.

Following World War I, the farmers reemerged as an independent political force. From the beginning, it was hostile to socialism, based on the presumption that it intended to bring the profit motive to trade and industry and exploit the interests of the agricultural population. In the 1928 election for the second Chamber the Social Democrats lost fifteen seats, the greatest defeat until then, which resulted in victory for the Conservatives. One reason for this outcome was the latter's exploitation of the electorate's fear of socialisation which had been indicated in the Social Democrats' inheritance tax policy. The other reason was the support of the majority of farm workers for the bourgeois parties (Korblik (ed.), 1975, p.264). While the party weakened its grip on the rural population by their policies on unemployment, the relationship between the Agrarian Party and the Right was on good terms. The Agrarian and the Right parties sought agreement over the unemployment question: they aimed to keep relief work to a minimum with a mobile labour market, and believed the level of the wages for relief work should be lower than that of the open market.

This situation had political consequences for the Social Democratic Party as Gunnar Myrdal, a young Social Democratic economist, and Rickard Lindstrom, the chairman of the Social Democratic Youth League analysed. Their views exerted a clear influence on Social Democratic ideology and tactics in the following years: some trade union methods were criticised by the party leaders and the party's agricultural and rural social programmes were extended. In 1932, the Social Democrats presented their new economic policy to the *Riksdag*. This was based on stimulating employment and buying power through state loans on the open market. This reflected the Party's recognition that there was a relationship between the agricultural crisis started at the end of 1930 and industrial unemployment. For Wigforss, the new policy demonstrated a fresh cooperation between workers and farmers.

The agreement gave a psychological advantage for the SAP over other parties in the continuing battle for farmer voters and provided a foundation for it to assume a position of power in a predominantly agricultural country. The dominant political forces of the government after 1932 were in favour of state intervention and public social policy, and their policy won the support from the Agrarian Party. Despite dissimilarities between them, they formed an alliance in favour of the general principle of state control in social security, health services, services for the elderly and education; with this base, it had

more opportunities to put their new economic policies into practice (Koblik (ed.), 1975, 258; Marklund, 1992, p.3).

The Disadvantage of the Relief Programme and the Adoption of the Unemployment Insurance Scheme

The relief system which provided public work for the unemployed at below-market wages became incapable of coping with the unemployment problem when it got more serious after 1931. The number of registered unemployed between 1931-33 increased rapidly: Feb. 1931: 41,595; Feb. 1932: 108,032; Jan. 1933: 189,225. Only 22 per cent of them were provided with relief (Childs, 1936, p.152).

When the Social Democratic Party came to power in 1932, their first measure was to expand the economy and to stimulate employment through the use of public expenditures. The practical policies were designed by Wigforss, who had become Finance Minister. During this period, Sweden broke with traditional economic ideas and adopted the use of the government budget as an instrument for economic stabilization (Ginsburg, 1983, p.112). Frans Severin, the successor to Wigforss as one of the members of the Committee on Unemployment after September 1932, argued in his comments on the first report that the reduction of wages was not an appropriate measure for combating cyclical unemployment and insisted on more public works. Erik Lindahl, who was asked by the Committee to comment on Gunnar Myrdal's supplement to the Committee's second report in 1934, pointed out that public works could not only be used to diminish cyclical unemployment, but could also be used against non-cyclical unemployment, and could be financed by deficit spending (Wadensjö, 1989, pp.4, 15-17).

The Social Democratic Party worked out their detailed plan to put the unemployed back to work through subsidies to private industry. This plan caused protest from the Conservatives, in part because that the Government planned to raise a large sum of money through new taxes policies in order to put their programme into operation. The strong opposition of the Conservatives made the Social Democrats seek support from the Farmer's party in order to get their proposal accepted in the *Riksdag*. This was achieved in the end by their making some concessions. One was to set the payments for the unemployed on reserve work at the usual wage of the unskilled labour in the locality rather than at the trade-union rate.

The Government could not carry out its large-scale relief programme, because when Swedish industry made its remarkable recovery in the middle of 1934, the Unemployment Commission curtailed those reserve work projects that had been started before the new programme was passed. The system was, however, accepted as a means of solving the problem of unemployment, and behind the system lay the principle of state responsibility. Yet the system exhibited some disadvantages. Apart from the difficulty of administration, most works were just provided for unskilled manual labourers, and were, therefore, inadequate for the skilled labourer, who might lose the opportunity of selling his skills in the market if he accepted work on a project.

Amid the slowly growing policy consensus and improving employment situation after the Social Democrats arrived in office, the political controversy surrounding unemployment insurance gradually diminished (Heclo, 1974). In January 1933, a five-man committee led by the new social minister, Möller, presented its unemployment insurance proposal which largely repeated the 1928 Lindquist Commission's proposal for voluntary unemployment insurance, but also paid attention to the shortcomings of this type of scheme on the grounds that it excluded many of the most needy. They also urged a proportionately larger amount of state contributions for high-risk groups (those with the lowest pay and highest unemployment rates), with the aim of encouraging them to establish their funds. The cabinet accepted the committee's proposal which was introduced in the Spring of 1933.

Because the Conservative and Agrarian Parties opposed the proposal forcefully, the Government realised that the support of the Liberal Party would be crucial. They made a number of changes to the proposal, which included a decrease in the employer's contribution, an extension of the contribution period for qualification, and the provision of work for the unemployed at 'reasonable' rather than market wages, in return for the Liberals' support. Nevertheless, the Government's attempt proved to be in vain. Ten out of the eighteen Liberals in the First Chamber voted against the scheme, and as usual, it could not pass in the *Riksdag*.⁵⁷ The proposal was reintroduced in 1934. In spite of the opposition of the Conservative and Agrarian parties, it passed the two chambers with the support of the Liberals and Social Democrats.

57. Olle Nyman, *Svensk Parlamentarism, 1932-1936*, pp. 138 ff. Första Kammar debate, June 20, 1933. Quoted in Heclo, 1974, p. 104.

Part Two The 1934 Unemployment Insurance Scheme and the Decision Making Environment of Sweden

In Section One of this part, I describe the features contained in the 1934 UI scheme, while in Section Two, I discuss the relationship between this outcome and the political context of Sweden. The central question are: What were particular features introduced in to the Swedish unemployment insurance scheme and why? The important role played by different groups and their ideologies will be given particular attention.

Section One The Unemployment Insurance Scheme

In Sweden, voluntary unemployment insurance was organised around associations that were administered by the respective labour unions. This voluntary state-subsidized unemployment insurance was put into operation on 1st January 1935. The following are the features of the Swedish Unemployment Insurance with regards to its coverage, financial arrangement, legal benefits and conditions for receiving insurance.

Coverage

The particular nature of a 'voluntary' scheme in Sweden was brought out well in the coverage. Although social class and selectivity were rejected as alternative criteria for social welfare provision, they were not altogether absent from the pre-World War II system of social security in Sweden. In addition to the universal insurance schemes (pensions and occupational injury insurance), another type of insurance characteristic of the pre-war Swedish welfare system was state-supported voluntary protection. Both Unemployment Insurance and Sickness Insurance had long-established links with popular mass movements, i.e. the free church, the temperance movement, and the socialist trade unions. Voluntary mutual aid societies, which played an important role in determining the provision of supplementary welfare for the purpose of solidarity, benefited from the state subsidies later on (Davidson, 1989, pp.59-60). UI in Sweden is in principle voluntary for individual employees. Yet, for most labour unions, membership of the UI fund is obligatory for union members. On the other hand, union membership is not compulsory for members of UI funds. Anyone who works in a field covered by a UI fund has the right to become a member (Björklund, Haveman, Hollister and Holmlund, 1991, p.111). Since most Swedish workers belong to unions, coverage is extensive (Ginsburg, 1983). Therefore in practice, it is compulsory. Together with its complement, labour market cash assistance, unemployment insurance has a universal coverage (Edbalk and Elmér in Soderstrom (ed.), 1983, pp.62-3).

The 1934 UI scheme was the most important example of society's efforts to provide social protection for individuals. Another important factor was that the more peaceful labour market created a better environment for accepting the Ghent system. Furthermore, local politicians were also strong advocates of a state-subsidised unemployment relief system, as the unemployment situation after the 1920s put severe strains on the local social welfare schemes and local government made efforts to lighten the burden on the schemes. The Ghent system was the most commonly accepted system of unemployment insurance when the Swedish set up its UI scheme, and the idea of compulsory unemployment insurance was becoming unpopular (Edebalk, 1975, pp.316-7).

The union-based scheme reflects a strengthening of the unions, but excludes certain marginal sectors of labour and therefore is limited in coverage. Those who were most in need might be excluded from the protection offered by the scheme. Severe unemployment together with stringent terms of insurance would lead to a socio-politically unsatisfactory unemployment insurance. It was approved by those who insisted on the self-help principle as the appropriate method of solving social problems. It was opposed by employers and Conservatives from fear that it would strengthen the unions (Olofsson, unpublished book, pp.110-11). Skilled workers supported this type of scheme while unskilled workers appealed for the provision of either public works or financial support from the State in periods of depression.

Contributions

Contributions to the funds were shared by employees, employers and the state. The funds had to be approved and registered by the state in order to get grants from the state. The government subsidy varied between funds especially, according to rate of unemployment. In the early stages of the development of unemployment insurance, an employee's contribution played an important role. Employers' contributions were paid as a percentage of the total pay-roll. No form of merit rating as in the American Unemployment Insurance system exists in the Swedish system (Edebalk and Elmér in Soderstrom (ed.), 1983, pp.62-3).

Benefit

The industrial trade unions and the trade union council (LO) demanded extensive state welfare programmes equal to what private and publicly employed white-collar groups already had in agreements with their employers. However, the LO as well as the Social Democrats were opposed to contractual (occupational) welfare based on agreements with

individual employers. They accepted the idea that the social insurance system should be based on compensation according to the loss-of-income principle and earnings-related benefits (related to previous and present income) instead of flat-rate cash payments. They also emphasised work and employment rather than cash transfers. Policies should enable individuals to support themselves.

The design was chosen to attract Liberal votes for the bill and had a number of advantages: 1) It would reduce the criticism against the voluntary system which was assumed to reach only a very small proportion and be biased in favour of the groups with little risk of unemployment; 2) It would include the large group of forest and agricultural workers; 3) The subsidy rules provided a compromise between the demands from opponents of insurance for a means test and the demands from supporters for the right to obtain compensation. Within the relief funds, the members earned the right to compensation through membership dues, but the government provided subsidies to the relief funds according to need (Edbalk, 1975, pp.315-6).

However, in order to qualify for government contributions, the funds of the mutual societies had to be certified and more stringent rules had to be followed than before. This meant that to a large extent, Parliament decided the system of regulation. Relief funds had to fulfill certain statutory conditions, otherwise, they had to rely entirely on their members' contributions (Sjöberg, 1985, p.61). 'The unemployment funds themselves retained primarily overseeing and administrative functions'. As a result, most of the societies choose to stay outside the state-supported system in the 1930s (Björklund, Haveman, Hollister and Holmlund, 1991, p.112). This reflects the Swedish policy of providing the unemployed not with relief payments but with work. Thus great efforts were made to counteract unemployment and to provide the unemployed with occupational training or jobs (Esping-Andersen and Korpi, 1984, p.40).

Section Two The Influence of the Different Groups on the Introduction of the 1934 Act

According to Heckscher (1984), after the establishment of political democracy in 1919, Swedish politics experienced a change from ideological dominance to increasing pragmatism in the inter-war period. This change reflects the replacement of the influence of Germany and France on political thinking in Sweden by the British and American approach. The development of the Swedish welfare state originated from a series of political compromises between the different parties and through the piecemeal solutions to practical problems rather than the SAP's ideological blueprint for the modern welfare state in the 1930s (pp.204-4). Rather believes that the rise and general development of the Swedish Welfare State must be explained as the outcome of class conflicts and compromise between organised class interests, Rothstein (1985) emphasises the roles played by particular individuals. He argues that in administrative matters, the thought and strategies of people like Gustav Möller must be considered as important; he was the foremost spokesman on social affairs for a Social Democratic party that holds the record of durability in governmental power among Western democracies: 1932 to 1976 (p.152). Wilson (1979) also argues that the civil service played an independent role in shaping social policy through the committee process for over a century and a half.

In order to understand the roles played by the political factors in the development of social policy in Sweden, it is necessary for us to understand the country's power distribution in the context of the establishment of a democratic political system. The democratic system enables the different parts of the society to express their different political opinions through different channels and to participate in consultative committee process. This was not always efficient and smooth, and the 'institutionalised compromise' did 'little to satisfy ambition or to relieve the psychological tensions engendered' by conflict (Rustow, 1955). Yet the agenda was mainly influenced by organised interest groups, especially the labour movement, and the substance of decisions frequently embodied compromises (Heckscher, 1984, p.194; Davidson, 1989, pp.135-6; Wilson, 1979, pp.17-8). Thus although there were intensive social divisions and economic conflict at the turn of the centuries, people from the different groups actively involved in the policy-making process for social insurance gradually came to an agreement by official investigations, commissions and renegotiations (Heidenheimer *et al.*, 1983, p.216). The delicate system of checks and balances with which the Swedish government operates should not be underestimated.

The Influence of the Trade Union as an Interest Group

Olofsson argues that historically the emergence and growth of the 'welfare state' were related to the problems of the working class and the growing strength of labour movement. By forming their own organisations, the trade unions, the workers can protect their interests; society itself also recognized that it should eliminate the hardship caused by market processes for the workers (Olofsson, unpublished book, pp.11-13, 18, 93-4. Also see Korpi, 1983, 1986 and Esping-Andersen, 1986, 1990).

Due to a particularly close link between the Trade Unions Federation (LO) and the Social Democratic Party (SAP), the latter got a significant support from the former, while the former achieved their aims through exerting influence on the latter. In this way, the trade union movement acted as an influential force in the social democratic movement's adoption of the new political ideas (Meidner, 1980, pp.344-5, 347). It pressed the government to construct social insurance reforms, relating to industrial accidents, sickness and old age, in order to protect the material interests of different segments of the labour force (Olofsson, unpublished book, p.14). It is therefore wrong to view the early development of Swedish employment policy as a purely government initiative. Although political parties, cooperatives and employers' organisations, and so on, all played an essential part in the creation of the welfare state and the political parties retained relatively well-defined ideologies, the labour unions exercised a considerable influence and this was a key to the Social Democrats' success.

The Centrally Organised Labour Force

In Sweden, manual workers and salaried employees were both highly organised into one centralised union confederation, the LO and TCO.⁵⁸ The LO and TCO were formed in order to set up a new balance of power and each of them had the protection of their own interests as their first aim (Heckscher, 1984, p.199). The Labour movement became a considerable force before the end of the 19th century and started to influence society after 1900. As a strategic response, employers and other business interests also became highly organised; the Employers' Confederation (SAF) was constituted in September 1902 in order to counter the tactics of the unions (Johnston, 1962, pp.69, 70).

According to the so-called December Compromise of 1906 between LO and SAF, employers reserved to themselves alone the right to intervene in labour issues, while the

58. TCO was created in 1944 based on the white-collar federations which were formed since the early 1930s.

trade union movement was given legitimacy to recruit and strengthen its organization. This agreement thus indicated the power balance which existed between labour and management organisations and established the form of collective agreement at national level which was to be used for next several decades. However, the failure of a general strike in 1909 had a catastrophic effect upon the Swedish labour movement as the LO lost half of its members in the next two years, and it took them many years to regain its former strength and membership. In 1928, the Prohibitionist-Liberal Government passed labour market regulations and the right to strike was restricted. After the passage of 1928 regulations and up to the late 1930s, Sweden experienced a period of organised capitalism. The Swedish trade union became one of the best-organised labour movements in the world (Davidson, 1989, pp.94, 188).

The labour movement's task was to carry out and further develop the welfare system for its members, its ideology was to maintain the market economy and reduce its negative effects through social and fiscal policies. In response to a fundamental change in the economy and prevalent unemployment after the First World War and especially in the 1920s, the increasingly powerful labour unions and the Social Democratic Party maintained the doctrine of solidarity to meet this challenge. The solidarity doctrine subsequently spread from the working classes to society as a whole.

A Close Relationship Between the SAP and the LO and Compromise Principle

A distinctive characteristic of the Swedish labour movement as an interest group was its extremely close ties with SAP. The party and the trade union movement have been historically and ideologically linked with each other since the end of the last century and the LO exerted a significant influence within the SAP. When the Social Democratic Party was established in 1889, trade unionists constituted the overwhelming majority of its membership. In turn, the party offered organisational and financial and ideological support for the formation of unions. The cooperative ties between these two parts influenced the government intervention in the labour market; the party fulfilled many of the functions as a co-ordinating central body for the unions, and at the same time drove the unions into political activity in order to gain numerical and financial strength (Johnston 1962, pp.24, 28-9). Its idea that the state and the self-governing local authorities had key responsibilities for solving social problems was consistent with the traditional paternalism of the Scandinavian countries.

The success of labour market policy in Sweden to a large extent resulted from a united, centralised trade union movement in collaboration with the governing Social Democrats

(Rothstein, 1985, p.155, Mendes, 1990, p.21). Through this link, the SAP reserved the right to intervene in the labour market and the trade union movement could take on an increasingly important role. In spite of the political limitations for the trade union movement contained in the 1906 Compromise, 'trade union-political party collaboration opened the way for changes in living conditions in Sweden outside the labour market as such. This became clear after universal and equal suffrage had been achieved in 1921 and the Social Democratic Party assumed governmental power in the early 1930s.' (Larsson *et al.*, 1979, p.11). The predominance of social democratic governments since 1932 meant that LO has been able to seek particular material benefits through legislation rather than bargaining table (Johnston 1962, pp.28-9). There has been a distribution of functions between the two pillars of the working class movement: while the trade unions have sought to increase the prosperity of their members through wage bargaining, the party has tried to improve the situation of the whole population through welfare state action (Olsson, 1990).

The LO held a flexible attitude when it attempted to discover the ground for its policies, the high proportion of the trade unionists in the SAP also gave the Party a reformist feature (Johnston 1962, p.24). Cooperation and negotiation between labour groups and other organisations within the society instead of open confrontation, were more and more accepted by labour unions and employers' organisations as well. This may be due to the fact that the LO experienced a change from its original belief in Marxian doctrine to a pragmatic principle in the course of strikes for the material benefits of the workers. This attitude was important for the development of social reform to bring a positive result. With other social groups and political parties, the labour movement made important contributions to the transformation of Sweden into a welfare state.

The Strong Self-help Tradition of the Trade Unions

Due to the late industrialisation in Sweden, the trade union movement itself had its origins in artisans' associations, led by craftsmen with predominantly liberal ideologies. It built up its cooperation with the dynamic liberalism of the nineteenth century which advocated social reforms for the purpose of dealing with social problems, and its growing political strength was regarded as important by the Liberal politicians (Johnston 1962, p.34). Traditionally, labour unions and employers' associations solved their problems by negotiation and attempted to restrict state intervention to a minimal level.

In the late 19th century, as the Poor Law could not protect workers against recurrent unemployment, members of the voluntary societies began to flourish. The first

unemployment benefits society for workers was established within a trade union in 1884 (Mendes, 1990) and the first UI fund started within the typographers' union in 1892. This kind of self-help management as new institutional form of reciprocity was encouraged when the Confederation of Trade Unions (LO) was formed in 1898; various self-help institutions were developed on a large scale by the late 19th century, and, with this basis, insurance against unemployment got developed in Sweden as in Britain (Edebalk, 1976; Olofsson, unpublished book, pp.108-9).

Due to the situation that, prior to 1910, there was no current unemployment statistics and state employment exchanges were poorly organised, the unions were the only possible providers of these services. Compared with an individual insurer, the unions knew their labour market better and often had their own employment agencies. In addition, unemployment insurance was related to the unions' wage policy. With unemployment insurance they could consolidate their membership (even during recession period) and strengthen their negotiating power for better wages. Trade union also enjoyed the advantages of large cash reserves, high wage level promised by collective agreement and high pre-capita wealth which made both employee and employers prepared to meet the emergency and sustain consumer purchasing power (Childs, 1936, p.158).

According to Forsberg (1986), voluntary sickness and unemployment insurance organisations, mainly covered employees in the economically stronger industries (pp.29, 44). Through the new unemployment benefit societies of the trade unions, the better-off workers subscribed to the collective savings funds to cope with the problem. They were in favour of the principle of 'solidarity' and hostile to the idea of charity, arguing that it was degrading for recipients. These organised groups in Sweden were more powerful than in most other industrialised countries (Edebalk and Elmér in Soderstrom (ed.), 1983, pp.62-3; Björklund *et al.*, 1991). Although the State Unemployment Commission of 1914 provided relief work at minimal rates for some of the unemployed, no state system of provision for the unemployed was established until 1934. As a different scheme from the one adopted in Britain, the Swedish UI scheme was constructed on the basis of membership, which originated within the workers' movement, and the popularly supported principle of group solidarity, rather than from any bureaucratic tradition (Forsberg, 1986, p.44; Davidson, 1989, p.58).

The weakness of this kind of voluntary and unsupported action was that arrangements were essentially directed towards the employees in a single occupation or in an individual enterprise, coverage was thus restricted. '[T]he basis of support for the lower classes continued to be the Poor Law.' (Davidson, 1989, p.58). By 1908 a series of

decentralised and uncoordinated funds covered only four per cent of the labour force. After the 1908-09 recession and the failure of the strikes in 1909, the memberships rapidly declined. In addition, the growth of these societies was opposed by the right-wing parties and the employers' organizations, with a concern that more workers would join unions. The contributions and therefore benefits from their own unemployment insurance scheme were low (Edebalk, 1976, 1987). During the 1920s, owing to high unemployment, the unemployment relief funds were subject to severe financial strains. Membership dues were consequently increased and the terms of compensation were tightened. Unions which did not have such funds were reluctant to establish them, '[r]equests for government assistance to the UI system became common' (Björklund *et al.*, 1991).

Although the Swedish labour movement acted as a noticeable force in economic and political life, it is questionable to conclude that the sole influence of the trade union movement on the introduction of UI of 1934 based on the Ghent system was decisive. As the stringent terms of insurance under the Ghent system were 'unprofitable' for the trade unions, during the latter part of the 1920s they supported the compulsory system instead. After its establishment in 1934 (during 1935-40), only 13 of the unions attached to LO joined the state subsidised system. The choice of the Ghent system, despite considerable resistance from some unions, was the Social Democrats' strategy to get the support of the Liberals because they would only accept a compromise solution within the framework of this system (Edebalk, 1975, p.317).

The Role of the Social Democratic Party

The Political Aim and the Reformist Feature of the Party

Although the Swedish Social Democrats' direct political influence had been not prominent during the 1920s, they were aware of the importance of social policy for social integration and the necessity of developing the party's own policies in this field. The leading figures of the party, such as Möller and Wigforss, played a remarkable role in this searching process and based on solidaristic principles, they put a stress on need, rather than performance, as the criterion for distribution (Esping-Andersen and Korpi, 1984, pp.11-12). Möller did not consider social reforms as the general or even long-term main purpose of Social Democratic politics, but took them as necessary preparation before nationalisation of industry could take place and socialism be introduced. Through a large number of social reforms, ensuring the right to pension, free education, unemployment insurance, health care etc., the productive and human forces of society

were hopefully developed and ready for the transformation to socialism (Rothstein, 1985, p. 156).

After the Social Democrats came to power, with the assistance of a powerful and well-organised trade union movement, there was a very narrow margin of popular support the government had over its opponents during the formative period of the Swedish welfare state. The former was compelled to pay attention to the opinion of the latter in relation to the legislation to be enacted, and adopted the ready-to-make-compromise tactic at negotiation table. Thus the Social Democrats combined adaptability and rigidity, and typically adopted a problem-focused approach based on empirical detail and sought specific solutions to concrete problems. The counterpart to adaptability was a highly rigid and structured way of developing policy in the Swedish political tradition; pressures for change were organized and channeled in quite stable, predictable, and orderly routines (Heclo and Madsen, 1987, pp.8-9).

Instead of nationalising the means of production, the Social Democratic government chose 'socializing incomes' as its policy in the early stage, because it believed that private enterprise could efficiently guarantee the economic growth needed for welfare. The SAP favoured a 'social market' model which meant a competitive market economy in an international free-trade system, combined with social reforms to redistribute the fruits of production. By choosing a middle-way, the Party managed to keep a balance between its political preference and the needs of other parties; and with this the Party gained necessary support for its welfare policy. The Party's pragmatic stand also refers to its attitude to Marxism in the context of setting up its political target. Although the first generation of the Party made use of Marxist terminology until the late 1920s, its approach was practical rather than dogmatic and they were less influenced by Marxism than their European counterparts.

The aim of the SAP during the 1930s was to insure the whole population through general reforms. This was related to the extended poverty and citizens' fear of insecurity. It also resulted from the Party's consideration of the humiliating feature of public aid which required special examination of a person's need for help. Many, within the labour movement, involved in the poor relief programme, realised that not only was the process demanding for those seeking assistance from public agencies, but also these people tended to become dependent on the public sector. The idea of security thus had a high priority during the course of the first social reform and it became 'the politically most stable ideal in the philosophical development of Swedish social welfare policy.' (Koblik (ed.), 1975, p.353).

The reformist party used social policy as its main political strategy for substituting democratic distribution for market exchange; i.e. social rights for property rights. By extending social rights gradually, the Social Democrats made efforts to reduce the extent to which wage earners were bound by market forces and ensure that individuals and families achieved living standards which were acceptable to society, regardless of their performance in the labour market. The universal coverage of social policy programmes eliminated not only the internal divisions and conflicts within the working class, but also those between manual workers and salaried employees. Besides, it implied forming broader class alliances with workers, farmers and urban petite-bourgeois groups rather than the consolidated traditional cleavages which induced new separate interests. By the established solidarity, more citizens would be mobilised for politically collective action for a more extensive social change (Heimann, 1980; Kaleck, 1972. See Esping-Andersen and Korpi in Goldthorpe (ed.), 1984, p.184).

However, due to the political situation as discussed already, the implementation of these ideas by the Social Democratic Party in the 1930's needed to form an alliance with the Liberal and Agrarian Party in order to implement its welfare policy. Despite dissimilarities between them, these parties accepted, to various degrees, the general principle of state intervention in social security, the health services, services for the elderly and education (Marklund, 1988b; 1992, p.3).

Because of its working class peculiarity, the UI was confronted with contests from other parties (Olofsson, unpublished book, pp.95-6), and the influence of liberal parties in society and the intention of the Party to gain the support from them through compromise were also important factors in choosing the form (union based) for the scheme. Besides, Möller, influential figure within the party, was seeking a way to cope with the administrative problems of the Welfare State. He did not trust the old bureaucracies to implement his social reforms and preferred to let public administrative issues be handled by local and popularly established organizations; the UI scheme is the foremost example (Rothstein, 1985, pp.152-158). The close relationship of the SAP with the LO also provided the Party with the advantages for its policy, as it could make use of the LO's self-help tradition when it developed the Unemployment Insurance programme. In addition, the full employment policy, which was the first priority of the party, had a substantial impact on the UI system.

The Party's Commitment to Full Employment as a High Priority

Heclo (1974) describes the Swedish approach to social policy as pragmatic. Policies were in general introduced to '[remedy] the defects perceived to be emerging from the previous policy change', the growth of pensions and unemployment insurance was in particular connected to reactions against the Poor Law (Heclo, 1974, pp.63-64). Wilson (1979), however, argues that this pragmatic nature is likely to be exaggerated, and certain strongly held basic principles have had a strong influence on the course of developments; one of which that individuals as citizens rather than employees earn their rights by contributions was the basis of developing social benefits (p.19). The other principle is solidarity which has been pursued by the labour movement with an impetus to create wealth and prosperity for all (Davidson, 1989, p.122). All these can be related to the Swedish concept of full employment.

C. J. Ratzlaff, American economist, said that Sweden, like other Scandinavian countries, had fully recognised the need for the coordinated machinery of cash payments, insurance benefits and public works, which were adopted by the government to relieve the depression during periods of abnormal unemployment (see Childs, 1936, pp.155-7). Poor relief, unemployment insurance and the construction of work programmes were three basic means used to alleviate the hardship caused by unemployment for the labour force. While the first two were regarded as 'passive' or 'benefit' policy, the last was 'active' or 'work policy'. According to Olofsson, both 'active' and 'passive' policies contributed to keeping the working class homogeneous, the former was concerned with the realisation of full employment, the latter with transferring income (Olofsson, unpublished book, pp.139-40).

The Swedish Social Democratic Party traditionally emphasised full employment and social welfare (Meidner, 1980; Ginsburg, 1983). It has been used in Sweden as an important means of increasing the output of goods and services by using otherwise idle resources. In 1908, Huss said:

It should be emphasised that in the creation of jobs one should, if possible, arrange so-called extra work, that is, work that would be done in any event but not at just that point in time. From both a theoretical and practical point of view, both the municipalities and the unemployed themselves should see that the work carried out is unequivocally useful to society and worthwhile in itself. It therefore follows as a

consequence that this work is paid at the going rate, to the extent that these labourers are as qualified as the average labourers in their field.⁵⁹

The Swedish trade unions had been positively committed to policies of full-employment and unemployment protection. Early unions found that unemployment was the cause of poverty, and therefore the problem of the labour market has always been at the centre of attention. For the labour movement, unemployment meant destitution of the unemployed, reliance on the poor relief system and loss of the civil and political rights. Accordingly, the Social Democrats regarded the establishment of the social welfare programme as an unconditional citizen's right as one of their objectives. They argued that, by equalising the distribution of social resources and raising the capacities of citizens, firm social rights and broad social services would constitute a necessary pre-condition for economic growth, labour productivity and economic efficiency (Korpi, 1990).

The Swedish UI was the last major insurance scheme established in western Europe. The reason why Sweden did not set up her own state unemployment insurance till 1934 was partly because they adopted a 'reserve work' system. Most of the unemployed were absorbed into the projects operated within the system in normal periods. The principle underlying the labour market policy was not only to help the unemployed to maintain their consumption standards, but also, more importantly, to provide them with work opportunities. By operating this policy, an efficient settlement between labour demand and labour supply could be achieved. Cash benefits are sought only when the above methods fail (AMS-National Labour Market Board, 1986, p.7). While the state was mainly concerned with creating employment, the trade unions, with the state supervision and subsidies, offered compensation for the unemployed.

The Influence of Foreign Experience and the Role of the Liberal Intellectuals

Heckscher (1984) points out that two questions should be taken into consideration: one is the effect of the international experience and the other is the significance of national tradition on the process of social reform. The making of the Swedish welfare state has its own particular historical development which is quite different from its European counterparts, this being especially true for the development of employment measures and

59. G. Huss (1908), "Promemoria angående arbetslösheten i Sverige hösten 1908 samt kommunala åtgärder i anledning av arbetslöshet", (Memorandum on Unemployment Autumn 1908 in Sweden and Municipal Measures due to Unemployment). Meddelande från kungl. Civildepartementet. Stockholm. Quoted in Wadensjö, 1989, p.15.

income maintenance. Initiation of sustained policy discussion on Swedish unemployment insurance suggests the importance of international influences and of the small circle of Liberal reformers in Sweden. Besides, Sweden carried out its discussion of the initial policy of unemployment insurance in the international context from which it learned some lessons from its European counterparts.

Sweden, like other Nordic countries, had a close relationship with Western Europe, especially Germany. The pioneering experience of Germany under Bismarck in the 19th century and the British reforms by the Liberal government in the first decade of the 20th century were swiftly reacted and studied by their Swedish counterpart (Wilson, 1979, p.20). The Swedes were also very familiar with the ideas of Marx and Engels and Mill and their discussion was influenced by the political arguments of socialists and anti-socialists and other new social trends originating in Germany and the Continent (Heckscher, 1984, p.28).

When Ernst Wigforss questioned the relationship between wage reductions and cures for unemployment, he argued that it was underconsumption rather than excessive wages which constituted the problem. Unemployment benefit, rather than cash relief, constituted a good social policy and a good economic policy with regard to its function of stabilizing workers' purchasing power. But unemployment insurance was inferior to full employment and should not override the latter as was the case in the Social Democrats' policy proposals. According to Heclo (1974), Wigforss was influenced decisively by British debates on unemployment, and was particularly impressed by the British Liberal Party's 1928 proposals, making a point of citing Keynes' writings to support his arguments (Heclo, 1974, pp.99-100).

In early 1933, the Ministry of Finance headed by Wigforss, consciously produced an effective counter-cyclical unemployment programme costing 200 million kroner, four years before the publication of Keynes' *General Theory of Employment, Interest and Money* (1936), this made Sweden the first country to accept modern stabilisation policies. 'During the next three years an average of 60,000 people were directly employed by special government programmes. Since then, employment policy has occupied a central position in Social Democratic programmes and in the Swedish political economy.' (Mendes, 1990, pp.40-1) The fiscal plan was based on lessons they had learned from the Labour Government in Britain who lost office in 1929, according to Wigforss, because they pledged to fight the crisis using traditional economic policies.

One reason why the Swedes did not adopt the State-administered unemployment insurance in 1934 as Britain and Germany did was that they saw the 'catastrophes that had beset the German and British state-run schemes in the World depression in the early 1930's' (Olofsson, unpublished book, p.112). Their experience showed the shortcomings of the compulsory system which was likely to degenerate into a system of pure assistance and consequently create problems for state finance and flexibility of wages (Edebalk, 1975, pp.314-5). The liberal British unemployment system from 1911, which was both individually comprehensive and covered larger parts of the population, did not influence the Swedish legislation (Therborn *et al.*, 1978, p.47).

Although Bismarckian legislation on workers' insurance in Germany stimulated and influenced parliamentary debate and inquiry in Sweden since the end of the last century, the Swedish reformers (elite administrators and politicians) adopted a more open policy process than did the Germans, the German's impact on the eventual introduction of social insurance programmes was diluted. Childs (1980) argues that in Sweden all important reforms were always preceded by innumerable commissions. They went through many processes of studies and compromises for each welfare proposal prior to its presentation to the *Riksdag* and the public and final adoption as law (p.5). Heckscher (1984) argues that in Scandinavian countries, the welfare state was established through the politics of compromise and the machinery of compromise is part of the political framework (p.193). The structure of the Left and the Centre / Right forces in politics and the role played by bourgeois parties and the employer' confederations are fundamental in explaining the development of the Scandinavian model (Olofsson, unpublished book, p.22).

Heclo (1974) suggests that it was party competition rather than the different intellectual bases that determined the development of policy (pp.104, 215). It is incorrect to claim that the introduction of the scheme in 1934 gave the Social Democrats an intellectual advantage in the unemployment debates because they accepted the Keynesian theory around 1930. During the period when the UI was discussed, only Ernst Wigforss and Gunnar Myrdal seemed to have linked the unemployment insurance with Keynesian theory, and the Social Democrats were not influenced by Keynesian ideas in the debates at the beginning of the 30s nor in their 1934 proposals. According to Davidson (1989), the ideological strands of liberalism and socialism coexisted within the Social Democratic party from the 1930s onwards, and the Swedish welfare state took its shape in the unresolved contradiction between the two. But in contrast to Britain, Swedish economists played a relatively small part in the actual policy-making process (Davidson, 1989, pp.20,124). The build-up of the welfare state was favoured by economic, social and political exigencies. The 1930 depression caused the trade unions and local Social

Democratic politicians to campaign actively for the introduction of an unemployment insurance system (Edebalk, 1975, p.318).

However, to underestimate the influence of the Swedish economists seems to me inconsistent with the whole process of the welfare policy development. The Party's founder, Branting, who gave direction to party policy in the succeeding years, was surrounded by young intellectuals who mostly had bourgeois (the middle class) origin and they exerted an influence in the party (Childs, 1980, p.9). The Swedish Liberals were active in formulating the principles of the earlier unemployment assistance scheme.

The influence of Swedish economists in the 1930s was partly due to their involvement in theoretical discussions since the middle of the 1920s and the beginning of the 1930s. Based on the official statistical work in the first decade of this century, a team of investigators, which marked the emergence of the Stockholm economic school, met in Stockholm and established the statistical and economic basis for the measures used to combat the cyclical downturn (Landgren, 1957, pp.11, 14). In 1934 when the SAP introduced its unemployment insurance bill, the Swedish Liberals held key positions in Parliament and the views of the relatively few liberal members were influential in adopting a Ghent system for the UI which satisfied their demands (Edebalk, 1975, pp.314-5). The bill passed turned out to be very restrictive -- with a meagre government subsidy to the unemployment relief funds. The arrangement provided a compromise between the two contradictory demands from the opponents and proponents of social insurance: the former insisted on means tested relief programmes for the poor and the latter campaigned for the right to compensation. Within the relief funds the members earned the rights to compensation through the membership dues, but the government gave subsidies to the relief funds according to the needs. Relatively higher subsidies were to be given to relief funds with relatively high unemployment as well as to those funds whose members had relatively low wages (ibid., p.315-6).

Part Three: Conclusion:

Faced with a deteriorating economic situation, high levels of unemployment and the apparent disadvantages of the previous relief system, the Swedish Social Democrats established the Unemployment Insurance scheme as one part of a programme to combat mass unemployment. A fundamental feature of Swedish social welfare policy during the 1930s was to insure the whole population of the society through general reforms which attempted to do away with those forms of public aid which required a special examination of a person's need for help. However, the voluntary character of the 1934 scheme,

combined with limited state subsidies, originated from the Party's strategic decision to obtain the support of the other non-socialist parties for its proposal. Therefore the final outcome of the lengthy political debates and the decision making process reflected the strong liberal influence. It can be regarded as a compromise between the different political parties and the mixed ideology of liberalism and socialism within the Social Democratic Party (SAP).

Four sets of political and institutional arrangements resulted in pre-conditions for the Party to put their concessions into practice in the case of Unemployment Insurance.

First, in Sweden, the normal procedure for introducing major legislation begins with the setting-up of a Commission. The Commission was composed of a group of experts, Members of Parliament, of the Government and the Opposition, representatives of organisations (labour, management, etc.) and intellectuals and administrators. Its tasks, which were approved by the Government, were to carry out investigations into the problems concerned and produce a report. Various administrative agencies and non-governmental organisations were invited by the Ministry concerned to comment on the report, these assembled opinions and public discussions were used as background to Government bills to Parliament. Members of Parliament could discover whether or not the Government had followed the recommendations of party representatives or of the organisations they favoured.

Thus, the decision-making process in Sweden was conducted in a corporate and relatively open political atmosphere in which the different parts of the society were given access to make contributions to the task, and the opinions representing the interests of the various parts were available to the Government. Such organised decision-making resulted in policies and programmes which ultimately reflected compromises between the various groups of society, most of which were formally represented through the system of interest group articulation.

Second, related to the above, the Social Democratic Government's political concession was crucial. The rural classes constituted the largest group among the electorate and, following World War I, the farmers had re-emerged as an independent political force. In a country where industrialisation was still in its early stages and the farmers' interests were clearly dominant, any expansive programme which was only concerned with the interests of industrial workers was unlikely to be politically acceptable. It would have been impossible for any labour or left-wing party to structure the welfare state alone. The Social Democrats had to take the farmers' interests into account. The formulation of the

'red-and-green' political coalition in the 1930s was the base of what came to be known in Sweden as *folkhem* ('home of the people'), i.e. a modern welfare state for all, which was introduced by Per Albin Hansson, Prime Minister in the Social Democratic Government in 1928. The concept reflected the Social Democrats' attempt to stress its political alliance with the Agrarian Party rather than the needs of the working class on their own. Social Democrats were dependent on alliances with other parties to achieve a majority in Parliament.

Third, a distinctive characteristic of interest group representation was the extremely close political and organisational collaboration between the SAP and the LO which established the foundation for the unique welfare system which subsequently emerged. In Sweden, the close links with the SAP influenced the LO's support for a welfare state based on full employment. There was a distribution of functions between the two pillars of the working class movement in which the trade unions sought to increase the prosperity of their members through wage bargaining, while the Party tried to improve the situation of the whole population through welfare state action. The voluntary, union-based Unemployment Insurance scheme of 1934 also provided the trade unions with a very important role in the administration of the scheme and reflected the fact that the historically close link between the SAP and the LO gave the former the political flexibility to deal with difficulties, and make use of the already-established trade union unemployment funds when it set up the Unemployment Insurance scheme.

Last, the Social Democratic Party regarded policies for full employment, wage solidarity and the fiscal policy as their priorities. A policy of wage solidarity had been increasingly advocated since 1922. The Social Democratic party and the Confederation of the Trade Unions did not consider cash provision for the needy, as manifest in the Unemployment Insurance scheme, to be their primary aim in the construction of a modern welfare state. As a result, the scheme was never at the centre of welfare policy. The dominant parts of the welfare system were work oriented and based on income reward for the employed rather than on cash payments for the poor and the unemployed. Full employment was essential to the LO's wage-solidarity policy. The idea behind the policy was that the unions should strive for a solidaristic wage structure -- i.e. a general equalisation of wages as well as 'equal pay for equal work irrespective of employer' -- and the government should support that wage policy by implementing labour market policies. Providing a job for everybody able to work was not only seen as the best way of preventing poverty and reducing social inequalities but also as the best way of improving overall standards of living and economic efficiency.

Although Swedish parties did reflect different ideological positions, none of them was very dogmatic in their political practice in the welfare field in general and in their attitudes to Unemployment Insurance in particular. It was the interplay between the politicians and interests groups which determined what position the parties adopted. Proposals for social insurance in Sweden were linked to political realities more than philosophical principles. It is probably fair to say that the Swedish Unemployment Insurance developed through a series of political compromises and piecemeal solutions to practical problems rather than as the result of ideological blueprints championed by the Social Democratic Party.

The final outcome of the decision making concerning Unemployment Insurance in Sweden in 1934 was very much influenced by the views of a relatively small number of the Liberals. As a result, it turned out to be very modest. It reflected the influence of the Liberals and the SAP's concern over the support from the other political parties for its proposal. In its union-based system, the coverage was extensive as the members of the trade unions were obliged to join the Unemployment Insurance funds and the membership of trade unions in Sweden was high. It did not imply, however, that any employee was eligible for benefits, coverage was limited and selective and certain marginal groups were excluded. The compensation for the loss of income was based on the earnings-related principle. Contributions to the funds were made by employees, employers and the State but the employee's contribution was the most important part. The State's subsidy varied among the qualified benefit societies and, in particular, according to the rate of unemployment.

Compared with the Liberals, the trade union movement did not play a decisive role in terms of the adoption of the measures for the Unemployment Insurance scheme, although there was exceptionally close collaboration between the SAP and the LO. It was partly due to the political situation in Sweden and the SAP's political strategy as I have discussed, partly due to the SAP's ideology of the welfare policy which tended to give priority to a full employment policy, as it believed that this was the best way to realise solidarity, reduce poverty and increase the living standards for the nation.

However, it is inappropriate to argue that the SAP's ideological position had more influence than political considerations in its Unemployment Insurance. The SAP's choice of the Ghent system for its Unemployment Insurance proposal resulted from their intention of getting political support and for the sake of legislation. The Party was pragmatic rather than dogmatic in dealing with the unemployment problem during that period, it was not constrained by any particular theories or ideologies. The Unemployment Insurance was introduced by the Social Democratic Party as an

experimental measure to solve the problem, but not as a complete blueprint of their long-term welfare system.

Although in the 1930s, the principles of the Ghent system had been abandoned abroad in favour of compulsory unemployment insurance and the Swedish bourgeoisie had supported compulsory unemployment insurance since the late 1920s, the experience of England and Germany around 1930s showed the shortcomings of the compulsory system which were likely to degenerate into a system of pure assistance and this reference can be influential in the Swede's decision concerning its Unemployment Insurance. The use of foreign experience and reaction to its influence had to be in line with tradition and political need.

Chapter Five

Unemployment Insurance Programme of the 1935 Act of the United States of America

In this chapter, I discuss the formulation of the unemployment insurance scheme in the Federal Social Security Act of 1935 in the United States of America. For the purpose of making a comprehensive study of Unemployment Insurance in a country which has a powerful tradition of individualism, in the first part of this chapter I look at the nature of the measures which were adopted for poverty relief and the response to unemployment before the 1935 Act was formulated. I particularly concentrate on the process of establishing the Unemployment Insurance scheme in the context of the interactions between different political and ideological interests and the competition for dominance between them. The rivalry between the advocates of the Wisconsin plan and the Ohio plan reflected the two major approaches to the issue of unemployment. In the second part of the chapter, I discuss the main features of the 1935 Act and seek to establish how the scheme emerged in that way. The different roles played by the various groups which participated in the debate over the formulation of the scheme will also be considered. The main conclusions are drawn together in the last part of the chapter.

Part One The Policy Context

Section One A Brief Introduction to the United States of America

The USA is a federal republic comprising 50 states and the District of Columbia, each of them having internal self-government. The Philadelphia Convention of 1787 instituted a separation of responsibilities between the national (Federal) and state governments and indicated a compromise achieved between those who were seeking a more effective central government and those who were aware of the necessity of defending the powers of the state authorities. In order to safeguard the diverse interests of the states and avoid the smaller states' interests from being threatened by the larger ones, a bicameral national legislature was set up. The House of Representatives was directly elected by the people and its membership assigned according to the size of a state's population. The Senate, which is known as the 'Upper House', was intended to represent all the states equally with two indirectly elected members for each regardless of size. Through the 1913 Constitutional Amendment, the senate was converted into a directly-elected chamber with each member being chosen in state-wide popular elections. State governments have a wide array of functions. All state legislatures but one (Nebraska) have two Houses. Each

state has its own constitution which derives its authority not from the Congress but from the people of the state. The Governments of the 50 states have structures closely paralleling those of the federal government, each of them has its own Governor and other executive officials and its own judicial system.

The separation of powers system was further accommodated within the national government in order to prevent a concentration of power and the creation of an autocracy. By the 1787 constitution, the government of the United States was entrusted to three separate authorities, the Executive, the Legislature and the Judiciary. The powers of making laws, and executing or administering them were accordingly divided among these separate groups of people; no-one could be a member of more than one branch of the federal government at any one time. Since the Constitution was framed, other institutions have developed to act as connecting links between the three main branches of government and help the system to operate. The President is the head of the executive branch and is elected for a four-year term by an electoral college elected directly from each state by direct and universal suffrage.

The Congress was given the function of law-making in the Constitution. It was granted legislative power to levy taxes, borrow money, regulate interstate commerce, declare war, determine members' seats, discipline its own membership, and determine its rules of procedure. Apart from initiating and scrutinising legislation, the Congress was to act as a check on the executive branch of government, including the examination of the President's requests for legislative action and the administrative activities of the government departments; it was designed to question the executive's requests for public money and reflect the interests of the whole society. Congress consists of two bodies: a 435-member House of Representatives elected for two-year terms by citizens who are qualified to vote for members of the state legislature, and a 100-member Senate elected for six-year terms.

The House of Representatives and the Senate maintain equal powers over the initiation and passage of laws. Bills can be introduced in either house, and before a Bill is passed to the President, it is necessary for both houses to give their approval of it in exactly the same form. Bills introduced by members in the House of Representatives are considered by standing committees, which can amend, expedite, delay, or defeat the Bills. Most important legislative works are carried out by standing specialist committees of the Senate and the House, and they have long been regarded as the control centres of legislation. They examine Bills and decide whether they should be considered by the full chamber, and therefore they can decide the fate of a proposal. In both houses, committees dealing

with taxation and government spending have higher status and more influence; among the most important committees are the Appropriations Committee, the House Ways and Means Committee, and the Rules Committee in the House which has a vital control over legislation.

There are two major political parties in the U.S., the Democratic Party and the Republican Party. The two major parties tend to be moderate in their political orientation (for the sake of winning votes from all sections of society) and this blurs the differences between them, but within each, there are both conservative and liberal wings which have distinctive emphases in their policies and programmes. For the voters, the Republican party is 'the party of the rich and business' and the Democrats 'the party of the ordinary people or the workers' (Grant, 1986, p.183). As the more conservative and business-oriented party, the Republicans dominated American politics until 1932. The Great Depression in the period 1929-31 and the 'New Deal Coalition' established by Franklin D. Roosevelt transferred the traditional Republican dominance in American politics into the normal Democratic one and since the 1930s, many Americans have obtained middle-class status but retained their Democratic party identification on a long-term basis. From 1932 to 1980, the Democratic party controlled both houses of Congress with the exception of two Congresses of 1947-8 and 1953-4.

The adoption of a two-party system in America possessing the diversity of social, ethnic, and regional interests rather than multi-party systems which are commonly seen in liberal democracies is due to the historical, cultural, constitutional, and social experience of the country. There was a rivalry between agrarian and commercial interests in the debate over the adoption of the Constitution that tended to divide the country into two broad coalitions, and this dual division was reinforced by the slavery issue and the Civil War. Other parties have occasionally challenged the Democrats and the Republicans but without long-term success. To win a national election, a party must appeal to a broad range of voters and to a wide spectrum of interests.

American party organisations are very decentralised and lack a strong central authority as a result of the federal system and of using the state and local levels as the basis of elections and party politics. State and local organisations have their own followers and areas of independent action free from external control; the national parties exist mainly to contest presidential elections every four years, and in between their quadrennial national conventions, they are little more than loose alliances of state and local party organisations. The main function of political parties is to dictate the structure of the institutions. In order to accomplish its ends, each higher level of the party needs

collaboration with the lower layers. This co-operation relies on a common sense of purpose rather than the execution of commands from national to local units in the structure, as each successive layer has its own concern with elections within its area of authority (Key, 1964, p.316).

The early colonists had both a Protestant background and a tradition of individualism and resistance to authority. The group of 'WASPs' (White Anglo-Saxon Protestants) was, and is still, in a powerful and responsible position in American society. America has a 'capitalist' economic system in which its Constitution was established to protect private property rights, yet it can not be described as a '*laissez-faire*' economy as even during the 1880s and 1890s the federal government passed considerable regulatory legislation to establish the economy, while leaving the means of production in private hands. As opposed to the experiences of direct nationalisation of industries in Europe, the American government supported specialist agencies and boards to introduce regulation to business and commerce. In the 20th-century, the USA became the chief industrial nation in the world, with vast mineral and agricultural wealth, a highly diversified economy, and an advanced system of communications and transportation. In the 1930s, the intervention of the federal government in the economy increased considerably because of large-scale unemployment and the economic stagnation. In order to attack the worst effects of the Depression, various measures, under the name of the 'New Deal', during the Roosevelt Administration were brought about.

One of the major characteristics of the United States is its great variety, physically, racially and culturally. The total area of the USA is 3,615,122 square miles, making it the fourth largest country in the world in area. The total population in 1930 was nearly 123 million of whom 56 per cent were urban and 44 per cent were rural. There was marked heterogeneity and diversity in the ethnic groups in America as a result of the 'open-door' policy of immigration in the nineteenth century, when millions of immigrants arrived from Europe and the Far East. The various ethnic and racial groups that together made up the population of the country turned the USA into what was often called a 'melting pot'. Due to the heterogeneous ethnic and national background of its people, the interest differences between its territorial regions and the complexity of its economy, America became a country with a rich social diversity and various pressure groups.

The settlers in the USA intending to seek a better life and standard of living for themselves and their families, have made the country geographically and socially a mobile society. To a large extent, the continuously expanding economy, the size and wealth of the country, the scarcity of labour, and the abundance of migratory

opportunities in a land with abundant natural resources has contributed to enhance social mobility in the past. Many people have been able to gain a middle class lifestyle. Partly due to the nation's historical background, with the absence of established hierarchies and aristocracy, hereditary landed wealth and titles of feudalism and fierce class divisions and without the need to struggle for universal suffrage and basic political and economic rights for the working classes, class consciousness has not been as prominent as in most European countries.

Section Two Political Debates and Measures Taken by the Parties on Unemployment prior to the Introduction of the UI Scheme

This section gives an account of the situation in America when unemployment became recognised as a critical problem and public demand grew for the introduction of measures to reduce the distress and misery of the unemployed and their dependants. First, I provide a historical account of popular reports of unemployment and the steps which had already been taken in response to the problem.

The Individualistic Tradition and the Policies for the Relief of Poverty Before the 1930s

The American relief system developed slowly in the nineteenth century against the strongly-developed commitment to individualism. Individualism created a peculiar obstacle for the working class, in particular for its security and well-being. The formulation of the idea of the welfare state in the twentieth century has largely grown out of the theory of liberalism and reactions to it. In the USA, both the states and the government lagged behind Europe in utilising social insurance methods. Two factors helped to nurture the individualistic belief and delay the introduction of state-organised collective measures. One was the agricultural system. Except in the south, independent farmers worked their own land. The other was the late but rapid development of industrialisation which was more or less absorbing the growing population and did not bring such economic distress that it led to serious outbreaks of disorder and therefore provoked relief concessions (Piven and Cloward, 1972, pp.45-6).

The doctrine of self-help through work was strongly held by poor and affluent alike. Liberalism appealed to craftsmen, merchants and farmers, who needed protection for their stock and commerce and freedom to pursue their interest in expanding their markets and stood to gain most from the process of the industrialisation. As a theory of social organisation brought by the settlers, liberalism was the founding doctrine for public

policies about underlying social problems. In the country where ample opportunities for work and independence from state interference were believed to be ensured, unemployment was widely regarded as an individual fault, the practice of the almshouse or workhouse was gradually adopted as the solution to the problem of poverty caused by industrialisation.

Unemployment relief became an issue in American politics in the nineteenth century when the fear of imminent catastrophe during the depression at the end of the century was widespread. The unemployed were seen as falling into three categories: the temporarily unfortunate worker, the industrially unfit or handicapped, and the professional pauper. The awareness of differences among the unemployed and of the social origins of poverty in the early twentieth century, suggested, on the one hand, the need to experiment in teaching the 'incompetent' to become accustomed to the competitive industries and, on the other hand, it acknowledged a case for limited social rather than individual responsibility for mass unemployment. The involuntarily unemployed had to be treated differently from the voluntarily unemployed. However, the principle that poor relief, if it was to be given at all, was a local rather than a state or federal responsibility, was firmly established. The local relief arrangements remained until the Great Depression struck in the 1930s. In many places, private charities were the sole recourse for the destitute.

By 1934 nearly all European governments and some in the British dominions, South America, and Asia had developed a variety of state operated and subsidised social insurance institutions. In explaining the creation of the unemployment insurance system in the United states, Nelson (1969) argues, it was mainly the reformers' effort to adapt a European approach to the American situation and to bridge the gap between the requirement for measures to deal with the devastating phenomenon of unemployment with the public belief in business' ability to correct industrial problems (p.219).

The Charity Organisation Society

A paradox became evident in the late nineteenth and early twentieth centuries. Social Darwinism, based on orthodox liberalism and the Protestant ethic, found a wide appeal. Its core sought to justify the progress of industry and its inevitable inequalities in terms of a grand philosophy of life, in which successful competition in the marketplace was likened to the biological struggle for survival of the fittest. The idea was particularly attractive to the business community. Yet artisans, country people, and middle-class 'philanthropists' supported the slow but significant growth of 'labour legislation' and

economic regulation which was taking place by 1900. They held a different belief from the former which insisted that policy must follow the best scientific understanding of human affairs.

There were two ways to resolve the paradox. One was through private charities which later became subordinated to the Charity Organisation Society. Motivated by the economic depressions of the nineteenth century (the last between 1893-98) and the fear of uprisings and moral deterioration of the pauper class, the well-to-do, like their European counterparts, set up voluntary organisations of private charities. The Society had been set up in to give some formal structure and direction to the provision for dependent people relying on the traditional means of good works. The other was the gospel of wealth which sought to provide better opportunities for wealth creation and more equal access to them. It was championed by the captains of industry and finance, men capable of princely benefactions.

By its nature, the charity organisation movement was ameliorating, its leaders stressing individual responsibility and private charity. They attributed the cause of pauperism to personal unfitness, a disregard for the economic virtues of industry, sobriety and thrift (Turner (ed.), 1977, p.1506). Be aware of the disadvantages of the Elizabethan English system of poor relief which often tended to stigmatise its recipients and failed to make distinctions among indigents, some reformers emphasised the case work method which looked for particular causes of poverty in the individual and his situation, and attempted to cure it through his rehabilitation. They declared that the individualistic and voluntary case-method was the proper alternative to unemployment insurance.

Despite the highly individualistic and voluntary attitudes of some relief and charity workers, the welfare workers' leading organisations such as the National Conference of Charities and Correction and the American Public Welfare Association, provided forums for discussing the relief programmes. By 1900 broad economic and social reform were actually being pursued by the enthusiastic reformers of the 'progressive movement'. The progressive movement abandoned dogmatic *laissez-faire* and advocated positive state action against the underlying social problems. They argued that depressing conditions were inevitable under unregulated modern capitalism and that the remedy should start with legislation. In their statistical reports and surveys, unemployment was identified as one of the common causes of poverty and dependence. Therefore, they argued for restoring opportunities to the mainstream of American workers. Unemployment compensation as a remedy was rejected but the workman's compensation for industrial accidents was adopted. By 1920, with support from industry, forty-three states had

enacted such laws (Schlabach, 1969, p.75). However, the schemes were run by private insurance companies and the benefits were usually inadequate and subject to time limits.

Business and Labour in this Capitalist Society

Business: At the beginning of the century, there was a polarisation in the industrial and financial world, with the larger corporations, railroads and banks on the one hand and the small and middle-range manufacturers and merchants on the other. During the Progressive Era (1900-1920), a climate for change was emerging as a result of dissatisfaction with the dividing society and the declining influence of some social classes. By 1918, the leaders of the large corporations and banks accepted and led a new politics known as the new Nationalism and the New Freedom. The new politics were related to the fact that the leaders in politics and big business argued that the stabilisation of the social order was dependent upon general social concern and social responsibility (Weinstein, 1968, pp.3-4).

As the most important single organisation of the big businessmen and their academic and political theorists who had a wide range of social concerns, the National Civic Federation (NCF) was organised in 1900 for educating the businessmen in the changing business system of America and the changing needs in political economy. The goal of the organisation was to establish a rational and conciliatory extra-political system which was based on cooperation among representatives of organised workers, farmers, academics and reformers, and to deny any form of class interests or politics. The small and middle-range manufacturers, the leading group in the National Association of Manufacturers (NAM) after 1902, were opposed to the new liberalism developed in cooperation between political leaders and financial and corporation leaders in the NCF and hostile to organised labour in any form (ibid., p.15).

Their hostile attitude to the trade unions aroused general concern in the NCF as it was becoming obstructive for political stability. For the leaders of the NCF, the political and economic stability of the emerging system of large corporations was associated with how the problem of the relationship between capital and labour was treated. The trade unions were a powerful force against socialism. The development of the NCF in its first 12 years went through three distinctive periods. In the first phase (until 1905), the Federation regarded a direct mediation in labour disputes as its main task and sought to build a mutual trust between the labourer and the employer. In the second stage (after 1905), the Federation organised welfare programmes and composed bills on workmen's compensation, minimum wages and public utilities for its state councils. The welfare

work was, to some extent, successful in changing the attitudes of anti-union employers. The last period was characterised as the Federation's active interference of in the political economy. It supported reforms, which represented a consensus of business, trade unions and others, with the purpose of inhibiting the growth of Socialism and instructing the business leaders to accept their responsibilities in the rationalisation of large corporations (ibid., pp.37-9).

Labour: The American Federation of Labor (AFL) was founded in the middle 1880s. In the United States, where a party was not based on a single interest but on a range of interests, there were a number of difficulties for the organised labour to become an independent political party. First, an labour votes were shared between different political parties; Second, geographically speaking, organised labour concentrated in only ten or a dozen of the fifty states; Third, state laws favoured the existing political parties and traditional voting habits worked against the development of the organized labour into a new party. New parties, in many states, had to meet extraordinary obstacles to get onto the ballot; Fourth, the autonomy of American unions from their national bodies and the lack of much centralised control of political parties over local officials would have made a national labour party difficult to control; Last, the ability of the existing American political parties to establish political links with union leaders reduced pressure from organized labour to organise a rival political organisation and made it difficult to interest them in independent labour or workmen's parties (Haber (ed), 1966, pp.253-4).

Compared with unions in other industrialised nations, the American unions historically faced more difficulty in gaining acceptance. The efforts by workers organised in trade and labour unions to improve their income and living conditions were bitterly opposed from the start in the United States (see the discussion on the relationship between business and labour in America in Part One). The interesting fact is that it was not the promoters of the new doctrines who confronted the bitterest resistance by employers but, rather, the workers who sought to influence their terms of employment.

The policy of the AFL was shaped in its early period by its President, Samuel Gompers. He believed that organised labour should use its votes to reward its friends and defeat its enemies as well as engaging in lobbying. The advantages of the policy were that it made the influence of the labour vote considerable in elections, it concentrated organised labour's resources on bargaining to achieve economic gains, it avoided undue hostility toward the AFL, and it led to the establishment of beneficial relationships between the AFL and state and local political machines. Because of the satisfactory relationship between organised labour and the dominant political machine in many local areas in the

nineteenth and early twentieth centuries, and the lack of class consciousness among most workers, independent political action made little sense to the early American labour unions.

Yet this policy mainly represented the interests of skilled workers and the gap of the economic power between the organised skilled workers and unorganised unskilled workers remained intact until the late 1920s when both skilled and unskilled, organised and unorganised lost their jobs. The organisation set a high value on American capitalism and rejected socialism as a means of achieving its goals. It embraced collective bargaining and independent political action in order to realise the labour movement's goal of improving the lot of the worker. After failing to change the AFL's orientation, the left wing (the socialists and the communists) was relatively unsuccessful and collective bargaining triumphed over more radical strategies.

The American Association for Labor Legislation (AALL)'s Approaches to Deal With Unemployment

The AALL recognised that the government had to adopt some policies to prevent and relieve large-scale unemployment, as personal incompetence was only a small part of the problem. In 1914, it worked out its programme which was composed of four methods. First, the establishment of public employment exchanges ensuring the rationalisation of the labour market in order to prevent unemployment. Second, adoption of regular and emergency public programmes in periods of economic decline. Third, the regulation of industry, making each business a steady rather than speculative one. Fourth, the adoption of social insurance, a technique which would apply constant financial pressure on employers to control unemployment.

The ideal of labour market rationalisation through public employment exchanges enjoyed a great deal of support in the early twentieth century. It was advocated by people such as John R. Commons of Wisconsin, who was one of executive committee members of the Commission on Public Ownership of Public Utilities which was created by the National Civic Federation (NCF) in 1905. In 1907, Commons set up the principles of the Wisconsin public utilities law. The principles included: public utilities would be best conducted by legalised, regulated monopoly; franchise grants to corporations should be for fixed periods and subject to purchase at fair price; utilities should be subject to regulation and examination under a system of uniform records and accounts by an independent administrative agency etc. (Weinstein, 1968, p.25). The principles approved more successfully in the private agency; employers and labour unions did not cooperate.

The indifference of employers and workers to labour market organisation, (the former were not committed to the abolition of labour reserves and the latter did not wish to be decasualised), was the major explanation for the failure of the ideal in the United States in the early twentieth century.

As it became clear that a national exchange system had failed to achieve prevention in the 1920s, public works, the second item on the AALL's programme, attracted considerable interest as a counter-cyclical device. People who were in charge of public works put aside financial reserves in times of prosperity for the purpose of improvement and expansion in times of depression. With the public work fund, 'we would at the same time diminish the time of booms' (Quoted in Lubove, 1968, p.158). The public employment and public works in the 1920's had the significance of making Americans prepared for the relief and social security programmes in the 1930's.

But a more important measure to prevent mass unemployment, compared to public exchanges and public works, was employment stabilisation through employer initiatives in the 1920s. It was regarded as the American's contribution to the theory and the prevention of unemployment. The advantage of job security through efficient industrial management, over the first two approaches, was that it relied upon the efforts of businessmen rather than government. Employment management was regarded as an outstanding feature of industrial development, and a primary means to deal with unemployment by philosophers of welfare capitalism and economic reformers. It implied a positive responsibility on the part of industry to provide job security by adjusting production to demand. The idea of the regulation of industry through employers' efforts in particular, in order to prevent unemployment, was popular in the discussion of the AALL about the approaches to deal with the problem of unemployment.

In the first decade of this century, a relatively small circle of reformers had been advocating social insurance and had won some response. For example, in 1907 the legislature of Massachusetts created the Commission on Old Age Pensions, Annuities and Pensions. Between 1911-1915 nearly two-third of the states enacted workmen's compensation laws (Schlabach, 1969, p.75). One of the difficulties, however, faced in the United States by advocates of social welfare legislation in general and unemployment insurance in particular was popular indifference, if not hostility, to European experience. The prevention theory's prevalent position in the debate of relief programmes made any idea which had similarity with the earlier British or German legislation unacceptable. They believed that the British system was unworkable and that prevention was a preferable goal. In 1917, Samuel Gompers, the leader of the AFL, argued that

compulsory arrangement would allow government to grab the power from the workers and weaken their spirit and virility (see Lubove, 1968, pp.76-7). The National Industrial Conference Board urged in 1921 that unemployment insurance 'should not be applied until a fair chance has been given management to reduce unemployment to the minimum through stabilisation of industry and efficient distribution of the labour supply.' (ibid. p.161). In their pre-World War I proposals, the reformers such as Professor Henry R. Seager of Columbia University and the Boston 'people's attorney', Louis D. Brandeis, either called for non-compulsory governmental welfare institutions or favoured company welfare plans. In 1928-29, voluntary unemployment insurance plans covered some 106,723 workers, and one-third of them were dependent upon union rather than company benefits.

In contrast to this hostile attitude to European experience, businessmen were believed to have the potential to bring efficiency and order back to industry. The reformers' aim to introduce unemployment insurance was not just, or most importantly, to seek the relief of the unemployed but mainly to enable the businessmen to show their responsibility by using their power to combat the economic disorganization. The employers accepted some ideas concerning prevention, especially if this might allow them to reduce their costs to an unemployment insurance fund. Industrial workers 'put their confidence in political bosses and religious leaders whose views of middle-class reformers were skeptical if not hostile' (Leiby in Turner (ed.), 1977, p.1522). The slow progress of social insurance in the United States was partly related to the fact that people were less anxious about dire poverty and its relief than people in other industrial nations and also because it was believed that the poor had private insurance or philanthropy to fall back on. It was only with the increasing joblessness of the 1930's that Americans were prepared to consider their European counterparts' experiences.

The Great Depression and the Reactions of Society

The Hoover Government's Measures to Deal With the Economic Challenge

When unemployment began to rise in the late 1920s, it was firstly defined as a temporary business downturn, with the belief that the resulting distress could be handled by the traditional methods of individual self-help and local efforts. After 1932 the nation began to recognise that a depression was occurring. By the Spring of 1929, the number of men out of work approached 3 million; by January 1930, the figure topped 4 million; in September, 5 million; by the Spring of 1933, about 15 million men had become jobless (Piven and Cloward, 1972, p.49). The 'long depression' (1929-42) did not just cause

massive unemployment and spread material hardship to different classes but also increasingly discredited the existing system and shattered the dominant ideology of *laissez-faire* capitalism and voluntary welfare provisions. In contrast, the views of socialist critics suddenly became acceptable.

Confronted with economic catastrophe, the Federal government at first remained aloof. The Hoover government's only action was to support and encourage bankers, railroads, companies and farmers by establishing a federal loan agency, the Reconstruction Finance Corporation (RFC), in January 1932. Its policy was based on the belief that the business cycle was self-correcting, these entrepreneurial groups would make the economy run again. However, even these feeble steps were ruined by doctrinal reservations about governmental interference with the economy. The government was preoccupied with the need to create a profit margin for businessmen in the face of falling price levels so that business could bring the return of prosperity to all Americans.

For the unemployed, Hoover limited himself to offering encouragement to local charity efforts. In August 1931, the President's organisation of Unemployment Relief replaced the Emergency Committee for Employment. But without either funds or powers, its function was mainly to promote the need for charity, to reaffirm the virtues of local responsibility, and to call for better coordination of local efforts. In a message to Congress in December 1931, President Hoover insisted on local initiatives to provide employment and other measures against distress. He argued against any direct or indirect government dole, as he believed they were partly responsible for breakdown and so increased unemployment. He said, 'our people are providing against distress from unemployment in true American fashion' (Quoted in Piven and Cloward, 1972, p.53.)

The increase of unemployment and widespread hardship made society recognise the inadequacy of the traditional belief. The pressure for public responsibility to deal with the problem using unemployment insurance was increasing. Legislation, introduced by the Democratic Senator Robert F. Wagner in 1931, called for two billion dollars for Federal public works, federal employment services, and federal unemployment insurance. Congress passed the first two measures (later rejected by Hoover) but voted down the last. A bill introduced by Senators Robert M. La Follette, Jr. and Edward P. Constigan in February 1932, which called for a Federal grant of 375 million dollars to the states for unemployment relief, had the same destiny. Many however in Congress shared the view that it was naive to expect to be able to end the depression through legislation alone (Schesingler, 1957, p. 226. See Piven and Cloward, 1972, p. 54). In 1932 another committee concluded that, at most, the Federal government should grant income tax

credits to employers in return for unemployment compensation contributions. In November 1932, even the trade union organization, the AFL, declared that it was virtually impossible to have one uniform national system. The states should separately pass measures suited to local conditions, with basic protections for unions and other minimal standards.

By the end of 1932, twenty-four states were providing some form of financial aid to localities for relief. When the numbers of the unemployed increased, more and more people came to the local relief agencies to seek aid, yet many of their applications for financial provision were rejected because local public and private relief agencies were incapable of carrying such a burden. Local officials showed their sympathy for the plight of those who had lost their jobs. There were two reasons for this. One was that the spread of distress on all sides led people to question the customary American view which identified the poor with laziness and improvidence. Instead, they defined their hardships in terms of industrial failure, they attributed it to faults in 'the system' and regarded it as a collective disaster which aroused protest. The other was the local politicians' fear of the possibility of the unemployed people's political defection. The unemployed were also voters. In industrial towns, in particular, the workers were often in a majority as well as unemployed.

The Swing to the Democrats and Roosevelt's Different Method

By 1932 the crisis had three main elements. The first was widespread destitution; the second was the municipalities' claim to be forced to the verge of bankruptcy due to increasing relief costs; while the third was the inevitability of refusing relief and the threat of disorder arising from the desperation of people throughout the country wanting jobs, money and food. The Depression thus gave rise to the largest movement of the unemployed in the history of the USA. Political disaffection meant people's hostility to their leaders and to the regime. It also was a test of the responsiveness of political leaders and the adaptability of the regime. In his acceptance speech as the Democratic candidate, Roosevelt proclaimed that the President had greater responsibility for the relief of unemployment. The Democratic victory in the election of 1932 provided a mandate to deal with economic catastrophe and attempt economic recovery.

The 1932 victory did not yet signify the achievement of political stability at a national level. After assuming office, the Roosevelt administration sought to overturn the already crumbling traditional principles of American relief-giving and launch a variety of measures to deal with the different facets of economic breakdown and to cement political

allegiances with many sectors of society. Measures like the National Industrial Recovery Act (NIRA) of June 1933 were designed to support and conciliate businessmen. This Act granted businessmen government backing for agreements to stabilise production and prevent price slashing (it permitted the fixing of prices and production to halt deflationary trends). Under the programme of the Federal Emergency Relief Act signed by him on May 12, 1933, Roosevelt adopted both means of assistance programme for business for the sake of recovery and made reimbursements to the states for payments to people in need and for the cost of administering local programmes. It allocated 500 million dollars as grants-in-aid to the states for unemployment relief, administered by state and local agencies in cooperation with the Federal Emergency Relief Administration (FERA). It was the first time in the history of America that the Federal government undertook responsibility for relief with substantial funds. The relief grants were directed to all needy unemployed persons and/or their dependents and to employed persons who did not have adequate resources to support themselves and/or their dependents. This Federal programme can best be understood as the government's response to a massive electoral upheaval and its intention to deal with the inadequate purchasing power of many workers and their low share of national income by legislation.

When the Federal relief started, there was a growing concern over direct relief. Many civic leaders realised that direct relief alone was insufficient to prevent individuals and communities from deteriorating and became more aware of the dangerous growth of helplessness and dependence. In 1933 when the debate about replacing poor relief with unemployment insurance was at its height, less than 1 per cent of the nation's industrial workers were protected by voluntary unemployment insurance. Plans were often actuarially and financially unsound, and proved unreliable in the Depression. Gomper's successors in the union movement, and employers who had experience with voluntary plans increasingly advocated compulsory government social insurance. However, the assumption that any insurance scheme had to be voluntary was still quite common in 1933.

The Different Ideas of Unemployment Insurance in America

In the United States, there were two main different approaches which occupied a prominent position in the process of enacting the Federal unemployment insurance scheme: one was the Wisconsin and the other was the Ohio models. The following are the accounts of the major differences between these two approaches

The Wisconsin Plan

Based on a philosophical stance which reflected the dominant American values of individual initiative, competition, and thrift, the proponents of the Wisconsin model built their unemployment compensation system on the concept of prevention. The goal was to prevent unemployment rather than deal with unemployment after it occurred. As fellow students of John R. Commons, who was a key figure of the Wisconsin plan for unemployment protection,⁶⁰ Paul Raushenbush, his wife Elizabeth Brandeis, Harold Groves and Andrews tried to design reforms basic enough to prevent the industrial causes of workers' hazards, not merely to alleviate their effects. Instead emphasising the redistribution of wealth through relief and compulsory insurance, they sought to induce managers to reduce the economic hazards to industrial workers in capitalist institutions themselves. For Andrews, the British system suffered from the 'suicidal imposition of Government 'doles', which were promptly confused with genuine insurance by all enemies of progressive social insurance legislation.' It 'did not approach the matter in a business-like way for the purpose of preventive work.'⁶¹

In 1931, Groves, Raushenbush and Miss Brandies developed a bill in which their basic idea was to credit each firm's contributions to an individual account in a state-managed fund, and then to charge the benefits paid out to the unemployed against the account. Firms with stable employment would maintain adequate accounts and therefore reduce and even discontinue contributions. The Wisconsin plan indicated the prevailing assumptions of individual employer responsibility and applied it to the power of businessmen in economic life, asserting that employers had a financial incentive to mitigate unemployment and act to prevent it. It maintained that insurance in America should follow the economic processes of competition and profit maximisation, with only minimal income redistribution.

60. As far back as 1921, Commons devised the Huber Bill in Wisconsin. According to the bill, insurance would be organized by a state-supervised but employer-operated mutual company. The company would have authority to adjust rates according to the level of unemployment in different industries and firms. It had a distinctive feature of limiting contributions to employers only. Commons wanted to make employers feel the social costs of unemployment and consider the costs before discharging workers. Payment for the unemployed was low as Commons wanted to avoid the socialist and paternalistic characteristic of European unemployment insurance schemes in his plan, and hoped to establish a 'capitalistic scheme' which would make efficient labour management profitable. It was rejected by successive Wisconsin legislatures during the 1920's.

61. John B. Andrews to Charles E. Pellow, March 24, 1922, American Association for Labour Legislation . Quoted in Lubove, 1968, p.168.

Although employers resisted its enactment, as an expression of their commitment to stabilisation or in order to thwart alternative, more radical proposals, insurance was abandoned altogether in favour of an individual employer reserves system. The bill was passed in January 1932, with the support of the Governor, and a Wisconsin Committee for unemployment and farmer organizations. The law took effect in July 1934 to become the first American public unemployment compensation law, the only stable one to be enacted before 1935 (Schlabach, 1969, pp.88-9).

The Ohio Plan

The Wisconsin plan was challenged by the report of the Ohio Commission on Unemployment in November 1932 which emphasised maximising and assuring worker's benefits and proposed worker contributions and pooling in one state-wide fund. As experts on foreign insurance systems, Isaac Rubinow before World War I, and Abraham Epstein in the 1920s, advocated the principle of spreading the risk not just among workers, but also to employers and to the state. They asserted that wages were too low for individual workers to cover their risks through saving. Although both of them agreed that employee contributions distinguished social insurance from relief and dole, they supported the idea of financing benefits from the public treasury, as it would readjust the distribution of the national product. Their attitude was related to the view that insecurity was not an individual problem but was inherent in the social and economic structure.

In 1933 Abraham Epstein and Issac Rubinow introduced a pooled-fund bill in the New York legislature. It was based on the British system, with contributions from the public treasury and from both employers and workers. (As the leader of the expert-lobby group, Rubinow had hoped to apply insurance principles to the risk of unemployment well before World War I, but had feared its effect on doles and relief.)

The plan was a challenge to the Wisconsin plan. The Ohio Commission showed a preference for insurance over reserves which was advocated in the Wisconsin model. For them, individual employer reserves could not provide adequate economic security for people subject to risk. The risk itself was inevitable and not dealt with by means of reduction. In contrast, pooled insurance was the soundest and most economical form of cover and was able to maintain purchasing power in periods of depression with large funds for the widest spread of people. In the Ohio plan, both employer and employee were required to make contributions, of two and one per cent respectively. Benefits, as in the Wisconsin plan, were limited to 50 per cent of weekly wages, but fifteen dollars

rather than ten dollars was set as the maximum and the benefit period was sixteen rather than ten weeks.

However, the principle of the Ohio Plan was criticised by Ohio Chamber of Commerce on the ground that it deviated from the essence of the American system, which stressed individual responsibility, by 'foisting upon the United States foreign ideals and foreign practices.'⁶² The report of the Ohio Commission helped to stimulate a change in public attitudes toward unemployment compensation. In 1933, 68 bills were introduced in 25 states, with the Ohio plan gaining an edge over the Wisconsin plan. Among unemployment compensation bills which passed one of the legislative houses in seven states, four made provision for a pooled fund.

In May 1933, the Andrews group introduced an amended 'American Plan for Unemployment Reserves', (the first was advocated about 1930), which used the device of segregated employer reserves. In his added response to the Ohio Commission report under pressure from the growing strength of social insurance advocates of the Ohio reformers, Andrews argued for voluntary employee contributions and pooled funds of industries: he regarded these two important clarifications as a useful safeguard to the Wisconsin plan. The amendments approved the introduction of pooling by the authorities administering unemployment compensation, provided that the accounts of too many employers fell below a certain level and workers made voluntary contributions for better benefits. Andrews hoped that the modifications would establish the American Plan as an acceptable compromise between the Wisconsin and Ohio positions. But this effort proved vain. As Raushenbush commented, there was no practical middle ground between the two camps on the questions of employee contributions and pooling of funds (Schlabach, 1969, pp.89-90).

The role of an employer in the prevention of unemployment was a controversial topic between the Wisconsin and Ohio schools. Some people, like Commons, Andrews and their followers, maintained that neither the government nor the wage-earner in a free enterprise system could determine the conditions of employment. Businessmen were the only people who could ensure the conditions of regularisation, and thus a business-like way to deal with the problem of unemployment was appropriate. Yet, for others like Rubinow, Epstein and Douglas, the presumption that individual employers were able to determine stabilisation was rather doubtful as knowledge about the causes and the ways

62. Ohio Chamber of Commerce, *Critical Analysis of the Report of the Ohio Commission on Unemployment Insurance*. Prepared by the Committee on Stabilization and Unemployment.(2nd., Columbus, December 1932), 5,6.24. Quoted in Lubove, 1968, p. 172.

of counteracting economic crises was uncertain. Rubinow attacked the argument that insurance, as a European method to deal with the problem of unemployment, was ineffective and stabilisation was America's solution for it. Rather he believed, like Beveridge in Britain, insurance had a different function from prevention. In this process, Beveridge's analysis of unemployment in environmental rather than an individual's point of view stimulated the American economists and social reformers. Beveridge's prevention theory and idea of different treatments for voluntary and involuntary unemployment also provided the foundation upon which his American disciples could build.

Lubove (1968) argues that the difference between the Wisconsin and Ohio approaches lay in a battle over the place of redistribution in social insurance (p.24). Since the Wisconsin school emphasised prevention and employer incentives, the role of redistribution in this form of social insurance was quite insignificant. The architects of the Ohio plan, Epstein and Rubinow, argued for the concept of social adequacy in social insurance and social assistance programmes. The real purpose of social security should be to provide adequate financial support for the unemployed, through the pooled employer reserves instead of individual ones, higher benefit levels, and a governmental contribution financed out of general revenues in order to maintain consumer purchasing power in the 1930s. However, Sinfield argues that the debate over the two models in 1935 focused on the issue of financing. The legislators, planners and most others were particularly concerned with the role the employers could play in establishing a rational market order and various taxation devices which were embodied in the schemes were intended to give employers incentives to provide stable employment (Sinfield, 1976, p.29).

The Strategies Adopted for Enacting Legislation and the Establishment of the 1935 Act

Until 1934 the federal government did virtually nothing directly for general social security. By 1934, as the Depression wore on and little improvement of conditions was evident, national income was only half what it had been in 1929 and one quarter of the labour force was out of work. Various dissident leaders, who commanded large followings within different sectors of the emerging New Deal coalition, including the unemployed, provided organisational form and coherence for the emerging unrest and built a political movement which was intended to shape the future of the United States. Economic suffering and the consequent political turmoil created the possibility of social change. Against this background, Roosevelt acted decisively to deal with the underlying

cause of disorder and insurgency, i.e. the breakdown of the economy. He sought to promote economic recovery through a series of reforms and to swing the dissidents behind the New Deal and thereby restore the political stability. Roosevelt said, 'I am looking for a sound means which I can recommend to provide one security against several of the great disturbing factors in life-especially those which relate to unemployment and old age.'⁶³

The congressional elections of 1934 ended with the victory of the Democrats. Temporary economic improvement, the easing of distress by direct relief and the New Deal brought large segments of the public behind the new President. Roosevelt called for the enactment of novel measures like social insurance. But who and what would establish a social policy response to the demand 'appeared to be up for grabs'? (Cates, 1983, p.22) The two models of social insurance, the conservative or anti-redistributional model of Wisconsin and the liberal or pro-redistributional model of Ohio, as they have been described above, dominated the discussion over the different approaches to state unemployment compensation policy before the establishment of the 1935 Social Security Act.

The Various Reactions to the Two Plans from the Different Groups

Between 1933-1935, politicians and administrators, as devisors of an unemployment insurance scheme for the Roosevelt Administration, had difficulties in finding a middle-road solution among the well-defined alternatives. The reformers found it hard to reach agreement on the role businessmen should play and how much control the state would permit, as different groups adhered to their own various beliefs. Politicians were aware of the necessity to take immediate action for long-term reform as well as short-term relief and to maintain as much support as possible from businessmen, advocates of a national system, and Congress itself. This was difficult because a bill which favoured one group would almost certainly face the risk of protest and opposition from the others.

An influential group of businessmen and intellectuals, with Andrews and Raushenbush as their spokesmen, believed prevention was the only legitimate goal and insisted that employers should only be responsible for their own workers. Their prevention plan gained the approval of nearly every national employers' organisation by 1932. They regarded unemployment reserves as an integral part of their stabilisation policy. Hendry Harriman, from the Chamber of Commerce, argued that 'industries which can so regulate

63. Roosevelt: a message to Congress on June 8, 1934. Quoted in Schlabach, 1969, p.74.

themselves that...employment is reasonably constant should not be burdened in order to pay for the cost of reserves for less well managed industries.'⁶⁴

The intellectuals, social workers, clergymen, and reformers, by contrast, who were influenced by the European model, pursued a comprehensive national system for social insurance. They regarded a genuine insurance program with uniform benefit standards as the best way to cope with unemployment and insecurity. They wanted contributions from the different groups, arguing that pooling more money would lead to higher benefit payments. Paul Douglas and Aaron Director had stressed the importance of contributions by both employees and employers as early as 1931. Otherwise, they thought, it would be difficult to provide adequate benefits and state legislators would lose interest in preserving the taxes because of inter-state competition and because employers would challenge more claims. An additional advantage of employee contributions was the greater interest shown by workers and the general public (Douglas, 1935, p.491. Quoted in Sinfield, 1976, p.31).

The major obstacles to the acceptance of the idea by society were the American suspicion of social insurance and the opposition from supporters of the prevention approach. Getting their potential supporters to stand up for their programme would be a crucial factor for their success and they decided to oppose what they regarded as an undesirable bill. However, the main problem which made Epstein and his supporters' position uncertain was that the leaders of organized labour, their major political source, were neutral and union leaders disapproved of the Epstein faction's advocacy of employee contribution.

The Wagner-Lewis Bill

During the Hoover years most politicians and administrators had given relatively little consideration to the question of unemployment insurance. Senator Robert F. Wagner, one of the congressional leaders, was one of a few reformers who showed interest in it. From March 1933 on, when the programme of the Hundred Days (Roosevelt's inauguration legislation) sought to solve the problem of unemployment by the re-employment of those who were out of work, Wagner had explained his support for the unemployment insurance system established by the individual states and private employers. In June 1933, Congress passed the Wagner-Peyser Act which included two measures. One was a coordinated federal-state employment office system, the other was

64. "The Stabilization of Business and Employment," *American Economic Review*, 23 (Mar, 1932). Quoted in Nelson, p. 194.

tax incentives to employers for the establishment of private unemployment insurance funds. Congressional approval of the Act was a very important step in his approach toward unemployment insurance legislation since it provided the administrative framework for a programme of unemployment insurance.

On February 5, 1934, Senator Wagner and Representative David J. Lewis of Maryland, president of the United Mine Workers of America, sponsored a tax-offset bill for unemployment compensation in Congress. It was drafted by Paul Raushenbush, Thomas Eliot, the Wisconsin reformer and Associate Labor solicitor, latterly working closely with the Secretary of Labor Miss Perkins. According to the bill, the employer was allowed a reduction on his pay-roll tax, provided that he made contributions to an approved state unemployment compensation scheme with minimum benefit standards even if the contributions were less than 5 percent. In order to avoid bitter controversy among advocates of social insurance, the Bill permitted either pooled or segregated reserve funds. But the uniform federal tax would limit inter-state competition and would also be regarded as supporting the Wisconsin plan by basing the unemployment insurance system on state rather than national legislation.

The Wagner-Lewis Bill won praise from experts on social insurance as well as from labour legislationists at a conference on unemployment insurance and labour legislation organised by Secretary Perkins. Yet it created a controversy as to what uniform standards the federal government should impose on the states. The conference revealed further divisions between representatives of the Wisconsin and Ohio plans. Although declared their support for the Wagner-Lewis Bill, Epstein and his followers called for tripartite contributions and adequate benefits for the unemployed and persisted in their hostile attitude to the Wisconsin plan.

At the hearings in March and April, the majority of businessmen urged delay and a reduction of the five per cent pay-roll tax, on the grounds that most businessmen 'have so many problems to consider in the present depression that they cannot be very interested in providing reserves for future depressions.'⁶⁵ Their objections to unemployment insurance legislation and to new taxation increased in the context of an economic upturn in early 1934.

Roosevelt failed to give decisive support to the Bill, although he publicly stated that it established a suitable role for the national government in relation to unemployment

65. Hearings before the House Ways and Means Committee, 1934, p. 70. See Nelson, 1969, p. 202.

insurance. He was afraid that social insurance might become a dole or a burden to the public treasury and accepted the suggestion of Tugwell, one of his advisers, to postpone the Bill. The decision revealed his doubts about the probability of the Bill's being enacted in that session, and his hope of preparing a more comprehensive programme for the next session and of reconciling the various groups with an interest in social insurance. His decision to set up an inquiry for a thorough social insurance study won explicit approval from his cabinet in the Spring of 1934. Following his announcement to Congress in June, a new Committee on Economic Security (COES) was set up on June 29.

Witte and the Committee on the Economic Security Bill

The aims given to the Committee on Economic Security, which was composed of social insurance experts selected from universities, foundations, business firms and elsewhere, were to carry out an interim study of social insurance and to formulate proposals for the new Congress.

On July 24 1934 with Edwin E. Witte, then Director of Unemployment Compensation in Wisconsin, was invited by Arthur Altmeyer, Assistant Secretary of Labor and a protégé of Commons, and by Secretary Perkins, Chairman of the Cabinet Committee, to head the research staff and take immediate charge of all investigations and studies. Witte was interested in the risk of unemployment as an industrial labour problem and his concern was increased by the worsening Depression; his interest was much shaped by his experience in Wisconsin. In the 1920s, pressure groups in Wisconsin had done more than similar groups elsewhere to keep interest in unemployment compensation alive. During a European trip in 1931, he carried out a careful study of British unemployment insurance. He accepted his new post on the understanding that his task was to develop a legislative programme rather than conduct extensive research, or gather new information, and to come up with measures that would win the broadest possible support.

Above the Committee was the 'Technical Board' composed of twenty administrative officials and advisers. Witte declared that the outside experts should not recommend policy but should carry out the wishes of the Technical Board. Since there were divided opinions among the social insurance advocates regarding federal and state roles, the assignment was a test of his powers of conciliation. He had to reduce new misunderstandings and personal clashes within the committee and settle arguments over social insurance doctrines that grew out of fundamental social and economic beliefs 'within the narrow limits imposed by the American political, social, and economic structure' (Schlabach, 1969, p.97).

There were four policy questions which were considered by the Committee from August until well into November. One was the function of social insurance, i. e. whether it should be used as the measure to deal with the individual's problem of security or as a tool to refashion the total economy. Witte and followers agreed that their major concern was not the total economic recovery but simply the protection of the individual against distress; a recovery programme lay largely outside the Committee's task. They believed that a social security programme should be sound fiscally, large increases in governmental welfare expenditures had to come from current taxation as relief expenditures had already strained the general Treasury almost to its limit.

The second broad policy question was how much to emphasise social insurance as opposed to public relief and other approaches to social welfare. Witte and the Technical Board included relief in their studies, in recognition of the fact that economic security is a much broader concept than social insurance and social insurance alone could not guarantee complete security. Witte declared in October that the solution to unemployment was more private employment plus unemployment insurance. Witte and his colleagues also decided that unemployment must not become a dole through the mingling of insurance and relief. The proposal included 'assistance' for various classes of unemployable people, but kept work relief separate from insurance, and made no provision for 'extended' unemployment benefits.

A third broad question was which programmes to recommend immediately to Congress, as the cabinet committee preferred the concept of traditional social insurance, with separate systems for separate risks, while Witte advocated one unified system. Top priority for unemployment compensation was never in doubt, since unemployment insurance was the favoured policy of Miss Perkins and her Labor Development group.

The fourth and most troublesome question concerned the proper balance between federal and state action. Management and labour lined up on opposite sides. Employers concerned themselves only with their own or their own industries' employees and advocated segregated funds, while organised labour sought the added protection of the broad pooling of risk. The question was particularly controversial, dividing opinions sharply among Witte and his staff. The Committee was broadly in favour of the German and British systems in which the Federal government would operate and administer. Eliot, the co-sponsor of the Wagner-Lewis Bill, was the leading spokesman for state administration within the committee. Witte himself was sceptical of both the wisdom and the constitutionality of national administration. He believed that the national government

could do little more than stimulate state action through devices such as the Wagner-Lewis offset tax.

The tension between Witte and his staff was kept alive. Witte feared that 'the violent opposition of either group was likely to mean trouble' and, characteristically pragmatic, be therefore tended to make compromises.⁶⁶ In the face of conflicting advice, the Technical Board decided to consider national as well as state administration. In the report drafted by Witte, they suggested three major alternatives. One was a fully national system that would completely ignore the states as administrative units; the second and third ones were both federal-state plans. One was the Wagner-Lewis offset tax proposal and the other was a 'subsidy' or 'grant-in-aid' plan.

A national system promised the advantages of uniformity in unemployment compensation and easy protection for workers who moved between states. It would be administratively more efficient than a state system. Under the subsidy plan, the federal government would collect a pay-roll tax and distribute the money to the states which operated unemployment compensation systems. It would also let the states collect as well as distribute benefit money. Witte and the Technical Board pointed out that the subsidy plan held greater possibilities than the Wagner-Lewis plan for national control and for holding back some money for a nationwide pooling of risk. But of the three plans, the Wagner-Lewis plan would fare best in Congress. The Technical Board warned that either the straight national scheme or the subsidy system might put great pressure on Congress to subsidize unemployment insurance from general Treasury funds.

On November 9, 1934, the Cabinet Committee decided to recommend federal-state collaboration, and expressed a tentative preference for the Wagner-Lewis plan over the subsidy method. Witte and the Technical Board pointed out that the Wagner-Lewis scheme enabled it to evade the segregation versus pooling issue. Roosevelt endorsed the federal-state approach in his National Conference Speech on November 14. The Committee's decision and Roosevelt's speech were important turning points in the battle between champions of national and of state administration.

Yet the battle was not over. Bryce Stewart, staff member who favoured an exclusively national plan, invited a group of such prominent experts as Rubinow, Douglas, Rushenbush and Andrews, to a national conference, at which nearly all of the participants were from outside the committee organization. On the issue of national

66. Witte, "The Government and Unemployment," *American labor Legislation Review*, 25 (March, 1935), 5-12. Quoted in Schlabach, 1969, p. 123.

versus state administration, the discussion turned in favour of a straight national plan which Roosevelt had precluded in his speech. In the end, Witte and his colleagues confronted the 'maze of machinery and conflicting personal interests' in Washington with their pragmatism. For old-age insurance they chose national administration; for unemployment insurance they chose federal-state collaboration (Schlabach, 1969, p.122).

In late December 1934, the COES produced federal unemployment insurance legislation in the form of a weakened Wagner-Lewis Bill. Nelson (1969) argues that because the Committee report involved many people, it did not just engage the various reformers but also aroused public interest in the economic security bill. To help it get through in the courts, they decided to give the states as much freedom as possible in the final bill which did not include any national benefits standards, or employee contributions although states could require them, and no restrictions on individual reserve plans. However one-third of the employer's 3 per cent tax would be paid into a state pooled fund.

The Congressional Debate on the Bill and the Passage of the Social Security Act

The Congressional struggle for unemployment insurance in the United States began with Roosevelt's statement to congress on January 17, 1935. In his message, Roosevelt announced the Administration's Economic Security Bill. The unemployment insurance provisions included a possible tax credit for employers who established an unemployment insurance scheme with the credit constituting 90 percent of the uniform federal tax. Except for the requirement that employers pay one per cent of their pay-roll into the state pool, no benefit standards or other requirements for states were included. States were given a choice between the Wisconsin or the Ohio plan. In order to provide an incentive for employment stabilization, an experience-rating system was used in the payment of unemployment benefits: the amount of tax paid by an employer as the 'benefit account' was linked to the claims of his ex-workers; the higher the rate of job-loss among his employees, the more benefit claims he would have and as a result, the bigger the contribution he was required to make. The bill established 'additional credits' for employers who had good employment records who could pay less than the 2.7 per cent standard tax under state experience-rating provisions after five years.

The bill aroused different reactions from different groups. For advocates of social insurance, like social workers and labour legislation experts, the programme was disappointing, because it was not based on a national system and contributions were not as high as they had expected. Epstein frankly confessed his antagonism and sought the

repeal of the bill, arguing that it would just set reform off on a tangent that would get nowhere. The COES Advisory Council was divided into two parts, one employer- and the other employee-oriented. The split was not over principle but over the details of the Administration programme. It was impossible for the two groups to reach a compromise because they had different conceptions of the objective of unemployment insurance and their dispute grew more bitter as the stakes increased. The former recommended employee contributions for unemployment insurance in a report to Roosevelt in April, 1935. This was supported by a majority of a committee of the Business Advisory Council.

The businessmen generally accepted the Wagner-Lewis approach, yet they disapproved of the absence of incentives for stabilisation and of its inclusion of employee contributions in the Bill. However, the businessmen's objectives were relatively weak. James Emery, general counsel of the National Association of Manufacturers (NAM) argued that social security taxes would merely increase unemployment. He preferred temporary legislation for those who were actually indigent. Henry I. Harriman suggested that some amendments, e.g. a small employee contribution and the continuance of existing company plans with provisions, should be made to the bill in order to make it more acceptable to the business community which was very much concerned with unemployment insurance at that time.⁶⁷ Marion Folsom, treasurer of Eastman Kodak, member of the Business Advisory Council and advisor to the Economic Security Committee, Reyburn, the chairman of the National Retail Dry Goods Association, assured legislators of their general support. And with Witte, Folsom exerted considerable influence in convincing the legislators that a social insurance programme was a practical proposition.

The bill did not get the whole-hearted backing of organised labour. Although the AFL continued to support a federal social insurance programme, their displeasure with the Administration because of Roosevelt's policy over collective bargaining stopped them from giving any assistance to the bill in the decisive stage in Congress, and their support was a vital ingredient in the passage of reform legislation. The lack of contact between the unemployed and the unions and the lack of interest from the labour movement as a whole were the important obstacles to Congressional backing for unemployment insurance legislation.

67. Hearings Before the Committee on Finance, 1935, pp. 913-5. See Nelson, 1969, pp. 213-4.

Although the prospects for the bill were not very favourable, the loyalty of Doughton, chairman of the House Ways and Means Committee, to the Administration and Miss Perkins' and Andrew's efforts ensured that it received the support of that Committee. In the House, President Roosevelt showed his forceful determination in fighting for the unemployment insurance and old age provisions in his bill. Witte continued his own crucial effort to convince congressional conservatives that the administration programme was a practical one and warned the business group on April 18 with a prediction that social legislation would soon come and they should not be short-sighted. On April 19, in the House of Representatives, the Democrats secured a victory over the opposition by 372 votes to 33 enacting the Ways and Means Committee version of the Social Security Bill.

Afterwards, Perkins, Witte and Andrews pressed the Senate Finance Committee to act on the one hand, and conducted a campaign for labour legislation experts to appeal to the Committee to support the passage of the bill on the other. On May 17th, the Finance Committee approved the bill with some important amendments. The changes included: retaining the individual reserve funds as in the Wisconsin plan; replacing the 1 percent contribution to a pooled fund by large variations in the tax rates of individual employers and allocating the administration of the act to the Labor Department rather than the Social Security Board.⁶⁸ On June 19 the Senate passed its version of the bill by a lopsided vote of 77-6. The President affixed his signature to the Social Security Act on the 14th of August which included the federal-state unemployment insurance programme. The concession in the 1935 Act to the Wisconsin Plan may imply its conformity with the individualistic tradition of the country and show that the use of alien models, like the British system, should also follow the tradition, otherwise, it would become inapplicable. Witte attributed its passage primarily to timely intervention by Roosevelt and to skillful legislative management.

68. Witte, *Department of Social Sources Act*, pp. 140-42. See Nelson, 1969, p. 218.

Part Two: The Features of the 1935 Unemployment Insurance Scheme and the Policy Making Environment of the United States

The Social Security Act of 1935 reflected the changing view of the public about the role of the government, especially the federal government, in provision of security. For the first time in American history, the Federal government introduced a range of social measures. It included federal aid for the aged, retirement annuities, unemployment insurance, aid for persons who were blind or crippled and aid to dependent children. The statute also laid a foundation on which the subsequent congress widened the coverage and increased the benefits and many unions, through collective bargaining, were able to manage to supplement the profits enacted in governmental old-age pensions and unemployment insurance for workers.

In this part, the central question is: Why were unemployment insurance schemes initiated with their particular features? The role played by different groups and their ideologies will be given particular attention.

Section One The Unemployment Insurance Schemes

As one of the programmes in the 1935 Social Security Act, unemployment compensation adheres to the insurance principle in which payments are not related to needs -- benefits vary according to the percentage of wages paid and to the length of time for which they are available. The programme relies on a tax on employers and is administered at state level. Employers pay different taxes in different states in order to equalize their competitive positions. As in other countries, the involuntarily unemployed must have had certain amount of earnings or employment in some specified period to qualify for benefit.

Federal - State Co-operation

In general, each state was free to establish its own unemployment insurance programme, but this had to meet certain requirements in order to receive Federal grants administrated by the state which could be offset against the Federal tax for employers. The purpose of these Federal requirements was to ensure that a state participated in the programme with a fairly administered, financially secure unemployment insurance system. According to Federal law, employers in industry and commerce who employed four or more people for at least twenty weeks of the year, paid a tax of 3.1 per cent on the first \$ 43,000 of annual wages of each employee. The state collected taxes from all industrial and

commercial employers to finance the approved plan. Employers opposed state action on unemployment insurance as for them it would have meant paying more taxes and putting them in a disadvantaged position in comparison with employers in other states. However, under the Federal Unemployment Tax Act, the establishment of a state programme enabled the employers in the state an offset 2.7 per cent of the 3.1 per cent Federal tax. The remaining 0.4 per cent Federal tax was collected by the Federal Government and used to cover the cost of federal and state administration. The state taxes were placed in state reserve funds in the Federal Treasury. The Federal tax removed the original obstacles to the state action.

It was one of the statutory requirements that the state should store all contributions (the unemployment insurance's taxes) in an unemployment trust fund held in the Federal Treasury. Each state had a separate account to which its deposits and its share of interest on investments were credited and could withdraw money from the account at any time to pay benefits. In the case of unemployment insurance, benefits were paid exclusively through a public fund, and no private plans could be substituted for the State plan. From these funds the state made weekly payments to unemployed persons for specified periods (U. S. Department of Health, Education, And Welfare Social Security Administration, 1973, p.56; Schottland, 1963, pp.80-1).

Although each state had to comply with Federal requirements, each state was responsible for deciding the content and development of its unemployment insurance law, i.e. the amount and duration of benefit, the coverage and contributions (with minor limitations) and the eligibility requirements and disqualification provisions. For example, the worker should not be denied benefits if he refused to accept inappropriate employment. The states were also responsible for administering Unemployment Insurance.

In as large a country as the United States, differences in per capita income among the states are great. Some have an income that is twice that of others. This makes a single comprehensive system such as the British system, based on uniformity, much more difficult, even on a minimum basis. Besides, the political structure comprises a federal system and the states tend to resist federal intervention and control. Some of the American social security programmes are the joint responsibility of the federal government and the states. Although the Federal Government has authority to provide grants to the states, to help them bear the costs of administration, it will face strong state resistance if it lays down conditions or standards for receipt of a grant. Burns argues that it is essential to seek a compromise between the desire for equal access to basic security and for similar treatments in similar circumstances and the framing of high centralized

and control by the federal government. If the setting up of the federal standard is too different from state interests or values, the state will not have to participate in the scheme. The states are primarily responsible for unemployment insurance. The states are granted power to adopt any level of benefits they wished, to set any waiting period, and to fix the maximum period of benefit.

Coverage

The unemployment insurance provisions passed under the Social Security Act in 1935 covered only certain classes of workers in certain occupations. Only about 80 per cent of all employed workers were covered by the federal-state programme of social insurance. The system covered all employees in private industry and commerce and Federal Government employees. But low-wage industries, agriculture and domestic service were exempted. Some casual labour, employees in some governmental and non-profit agencies, and employees in firms of fewer than four workers were also excluded. Only workers who had a sustained record of participation in the workforce but were out of work due to job retrenchments could establish their eligibility for aid (Piven and Cloward, 1972, p.114). Most of the states did not include workers in employment except that covered by Federal law. But in most states, those excluded could be covered at the discretion of the employer. Based on the constitutional prohibition of Federal taxation of state governments and their local subdivisions, the Act did not cover state and local government employees. However, the states did provide some provision for them. The employees of the Federal Government came under the state systems but railroad workers had a different system. The coverage varied between the states and some were more wide-ranging than others.

The self-employed were excluded from unemployment insurance altogether. This was due to the fact that the system was primarily for those who worked for wages and suffered from loss of wages due to unemployment, but also due to the difficulty of deciding when a self-employed person was unemployed. Sinfield (1976) has argued that the operation of unemployment insurance probably increased inequality rather than reducing it. This is due to the fact that the needs of the lower-paid worker were quite persistently ignored and were opposed positively by many measures (p.16).

The arrangement that different states have different schemes results in unequal access of all Americans to minimum security. Some people are denied any socially provided income, because they failed to fall in the specific 'categories' that had been recognised as 'deserving' relief. These gaps and anomalies also refer to the different treatment of

people in very similar circumstances. In terms of the unemployment insurance programme, the differences in the amount and duration of benefits paid to workers with similar employment histories vary greatly from one state to another. Secondly, the programme does not cover all workers exposed to risk.

Eligibility for Benefits

Despite the provisions of the 1935 Act, the states were free to determine eligibility for benefits and there were therefore great variations from one state to another. However, there were a number of general eligibility requirements: a person who qualified for benefits had to be unemployed, to be able and available for work and to be seeking such work. His/her unemployment must not have been voluntary and without good causes, the job must not have been lost due to misconduct or to a strike, lockout, or other labour dispute. He/she must not have rejected an offer of suitable employment, and must be making reasonable efforts to obtain suitable employment. In order to be eligible for benefit, the claimant had to prove that, for a required period called 'the base period', he/she had worked in covered employment, or that he/she had earned a minimum amount in that period, or both. All persons seeking unemployment insurance had to register for work at a public employment office. Disqualification usually applied for a specific number of weeks. In a few states it could result in the termination and reduction of benefit.

Benefit Payments

The 1935 Act did not prescribe any necessary standards of benefits, and there were great variations between states in benefit levels. The weekly benefit, the duration of benefit, benefits for dependents, and other matters were based on the states' decisions. In general, the worker received a benefit equal to approximately 50 per cent of his/her weekly wage, and benefits were wage-related with maximum and minimum benefits set by state law. In some states, the maximum was so low that benefits could not reach the 50 per cent target. 39 states based benefit levels on the highest aggregate wages earned in any quarter during the base period. Some states then took a fraction of these wages as the benefit level.

Financing

In order to give a clearer discussion of the financial aspects of the 1935 Act, I divide my description into two parts: 1. Segregated or pooled funds; 2. Subsidy plan versus tax offset.

1. Segregated or Pooled Funds

One distinct feature of the American unemployment insurance programme is that in most states it is financed completely by the sole contribution of employers for the entire costs or taxes of Federal law and the various state programmes. The amount of the payment of each employer is determined by the benefits his own employees have drawn. About four out of five wage-and salary-workers are covered by unemployment insurance but workers in two states pay contributions. Only nine states ever collected employee contributions out of eleven states which enacted such laws (Schottland, 1963, pp.86-7). In his June the 8th message, Roosevelt required federal custody of the funds and also suggested financing social insurance through pay-roll contributions rather than general taxation for the sake of the cautious use of social insurance for control and counter-cyclical spending.

As I have discussed before, there were two different types of state fund prior to the Social Security Act. One was a separate 'reserve account' for each individual employer in Wisconsin. Unemployed workers of such an employer could only get payment from this account. The other was a 'pooled plan' developed in Ohio in which all contributions were placed in a single state-wide 'pooled fund' and all benefits were paid out of it. The Ohio system was adopted in the Federal Act. There remained a highly technical problem: the Economic Security Committee could not entirely escape the issue of segregated versus pooled reserves for unemployment compensation when they tried to work out a recommendation, as it involved broad social considerations. On the side of segregated reserves was the concern for perfecting the capitalistic wage system by making employment stabilisation profitable to the employer, and the concept that an employer was responsible primarily for protecting only his own employees. On the side of pooling was the concern for guaranteeing maximum benefits to the worker, and the concept that social responsibility for the unemployed was as broad as the nation's economic system. There were basic contrasts between the two sides. One side spoke of 'unemployment insurance', the other was careful to speak of 'unemployment reserves'. Epstein reasoned that segregated reserves provided too little protection to workers and gained no popular support. Rubinow declared that the social purpose of unemployment insurance was to

relieve the distress of workers without charity and doles. Raushenbush and his colleagues argued that the purpose of Wisconsin law was (a) to encourage the stimulation of more regular employment as far as possible and (b) to make the payment of unemployment benefits to workers idle through industry's failure. These differences, each side recognised, involved fundamentally different views of how the economy worked. While the Wisconsin plan was individualism modified by social responsibility, as Raushenbush wrote, the Ohio plan implied, Epstein argued, that unemployment was inherent in the present social structure and both employers and workers were the victims of the system of production. He indicated that it was impossible to eliminate unemployment without changing the disorganised system.

2. Subsidy Plan versus Tax Offset

The average tax paid by employers for unemployment insurance benefits was about 1.7 per cent, less than the amount set by Federal law which was 2.7 per cent. Many employers paid even substantially less than this average. This was due to one of the most controversial practices in the unemployment insurance programme, namely experience rating. The main idea behind this was that the tax paid by an employer should correspond with his benefit-payment experience over a period of time. The tax would be reduced if the employer had little or no unemployment. There were various plans for States to meet certain minimum Federal requirements for a rate reduction to be granted to an employer. In most states, a certain amount of the fund was required before a reduction was made; in some states, it was related to the benefits paid; in other states it referred to a percentage of payments in a specified period. These arrangements resulted in substantial reductions but also in variable rates to different employers. Minimum rates based on experience ratings ranged from zero to 1.2 per cent. Maximum rates on the most 'favourable schedules' ranged from 0.5 per cent to 2.6 per cent (Schottland, 1963, p.88).

Section Two The Different Influence on the Introduction of the 1935 Act

As has been said in Section One in the first part of the chapter, the Democrats see themselves as 'the party of progress', advocating experimentation and social change, governmental regulation of the economy and large spending programmes for achieving welfare, security, and national prosperity. They favour a strong federal government which is able to introduce intervening policies and push state and local governments to implement them (Grant, 1986, p.184). Since the Great Depression, there has been a growth of the Presidency; people expected the Presidents to use techniques such as changes in the tax structure, administration of the federal budget, credit controls, and

public works programmes, to maintain economic stability. The Democratic party has managed to gain support from a disparate and heterogeneous coalition of groups, and the New Deal programmes made the party responsible for the security and welfare of the poor, the unemployed, and the ordinary worker.

During the Great Depression, political leaders were aware of the crisis engendered by economic distress. In order to recapture the allegiance of disaffected groups and win votes at election time, they would try to use the power and resources of government to intervene in the institutional arrangements and to expand relief programmes. If they did not do so, they would have had to lose office to rivals who were seen by the disaffected blocs of voters to come up with more effective measures. The initiation of a national public welfare system in the United States during the Great Depression can, in large measure, be understood in these terms (Piven and Cloward, 1972, pp.40-1). It was the rising surge of political disorder that accompanied this economic catastrophe more than any other factor which led government to provide relief on an unprecedented scale. The passage of the Social Security Act on August 14, 1935 was seen as effecting to these aims and unemployment insurance was, as we have seen, one of three main proposals contained in it.

The United States is usually described as a 'liberal democracy' in which thousands of different factions compete to influence the formal institutions of government in order to promote their own interests and objectives. Due to the heterogeneous ethnic and national background of its people, the interest differences between the regions of its territory and the complexity of its economy, America is a country which has rich social diversity and various pressure groups. The constitutional system also encouraged the growth of the pressure groups. The decentralised and diffuse nature of American government provides the pressure groups with opportunities to exert their influence in the decision-making process. Therefore the examination of this continuous process is of major concern in the study of American politics and an understanding of the role of pressure groups in the system 'is essential for a proper appreciation of policy making' (Grant, 1986, pp.1, 140, 143-5).

In part, the different roles played by different groups have already been presented in the earlier discussion of the debate which preceded the 1935 Act. Various groups and representatives of various interests were involved in the enactment of the legislation. Their respective influences varied according to how effectively they managed to defend their interests, and how willing they were to bow to political compromise. While some

saw doctrine as being of paramount importance, others were willing to pursue a more pragmatic line.

Administrators

Bureaucrats have a considerable amount of political power in the policy-making process. They cannot be thought of merely as neutral administrators of politics formulated by politicians, rather they possess great discretionary authority on how laws will be enforced, and whether policies should be suggested to Cabinet Secretaries and the President for consideration. Their knowledge, experience and special skills make their impact on the political leaders in many areas important (Grant, 1986, pp.104-5, 145). Neustad (1964) argued that although a President has plenty of constitutional authority, yet, '(t)he essence of a President's persuasive task is to convince such bureaucrats, Congressmen, etc. that what the White House wants of them is what they ought to do for their own sake and on their own authority' (p.34).

The conservative features of the 1935 Social Security Act reflect the considerable influence of the Wisconsin anti-redistributional approach and this influence effected the administration of the Act when it became law. The representatives of this approach, like Witte, played crucial roles in drafting the legislation. Appointed as Executive Director of the Committee on Economic Security with Perkins as its Chairman, and Secretary to the Technical Board, the main advisory council, and the Cabinet Committee itself, Witte formally selected questions to be studied, prepared the agenda, and drafted the leading reports. In this way, he was able to transmit decisions upward from the staff, through the Technical Board and advisory groups, and finally to the Cabinet Committee. Witte's competence to evaluate alternatives with care and to synthesise ideas into practicable proposals was impressive and cabinet committee members expressed confidence in his judgment. This, in turn, helped to achieve a consensus on key issues.

In October 1934, Epstein gave his advice to the Economic Security Committee, arguing for the need to subsidise social insurance from the general treasury in order to redistribute wealth and guarantee uniformly high standards. With the lobbying of his American Association for Social Security, twenty-four of the most prominent advocates of unemployment insurance urged the Senate Finance Committee to adopt some 'subsidy' arrangement. After November 9, 1934, there was a dispute between those who preferred the subsidy plan and those who advocated tax offset. The promoters of subsidy plans said that stronger national control would result in higher benefit standards. Under experience rating, the individual employers would try to hold down benefit provisions.

On this side there were staff members Stewart and Mrs. Armstrong who had favoured a straight national plan. They won the support of the advisory council. On the opposing side, there was Witte supported by the most important insiders-Altmeier, Eliot, and by Hansen' sub-committee.

Witte argued that the tax offset device was politically safest. He assured members of Congress and the public that the tax offset plan would equalize unemployment compensation costs but still allow flexibility and efficiency of administration. The tax offset provisions ensured the necessary minimum standards and guaranteed that every dollar of contribution would actually go towards unemployment compensation. He also declared that the subsidy plan was not as different from the tax offset plan as its supporters thought, since the plan contemplated no contributions from the general treasury.

Sensing opposition from Congress, the Cabinet Committee rejected Stewart's favoured programme. At the behest of Miss Perkins and Witte, on January 17, 1935 the Committee produced its final form of the Bill for Roosevelt. In relation to unemployment compensation, it suggested that 1 per cent of pay-roll taxes be pooled, but approved either segregation or pooling of reserve funds. It favoured the tax offset type of law which allowed considerable State autonomy, except for crucial requirements that all money credited against the offset tax go for unemployment compensation and that States require companies to have relatively high reserves before allowing them to reduce contributions. Witte's attempt to restore company reserves as a 'necessary' amendment in the report to the President fitted Roosevelt's own strong concern that unemployment compensation could provide an incentive for stabilization. He was reluctant to place financial responsibility for social insurance on the general public through subsidies from the general treasury. Witte and his followers had won Roosevelt's backing for their more cautious unemployment compensation programme under a tax offset law.

Witte played the same role in educating and convincing congressmen and senators, and this was probably his most crucial contribution to social security (Schlabach, 1969, p.103). Informally it was the Labor Department which was trusted to give advice to the Cabinet Committee members and Witte was taken into the confidence of the Labor Department insiders. Wilbur Cohen, Witte's former student and research assistant, observed that a decision was 'ninety-eight per cent won' if Perkins, Altmeier, and Witte agreed upon it.⁶⁹ This was a source of annoyance to other experts who had strong policy

69. Frances Perkins to Schlabach, Oct. 26, 1964; "Memorandum from the Secretary to Mr. Altmeier," July 20, 1934, box 154, Perkins files; memorandum, C. E. Wyzanski, Jr., to Altmeier,

opinions and sought a voice in policy-making (Cates, 1983, p.25). From February 1935, Witte attended all executive sessions of the Congressional Committee and the Congressional Hearings held for the Social Security Bill. He explained the Bill's logic, clarified its details, and anticipated objections and proposals for amendment at the joint House-Senate conferences.

The relatively modest social security proposals, which was lack of national government control and any redistribution of wealth through subsidies from the general treasury, were opposed by many groups. Organised labour approved financing unemployment insurance by any form of pay-roll tax. The National Association of Manufacturers (NAM) simply rejected the idea that industry should have to pay taxes for the social security of its employees. Yet on April 19, 1935, the House of Representatives passed the rewritten Social Security Bill by a massive vote 371 to 33 in favour, Roosevelt's programme substantially kept intact. Witte continued his persuasion at every opportunity as he became aware of increased opposition from business interests and southern senators and feared that conservatives and reactionaries would either block the entire bill, or emasculate it and pass only the old-age assistance provisions. He repeatedly intervened in Congress, insisting that the bill's congressional managers keep it intact and calling publicly for its passage. Senator La Follette successfully led the Senate Committee attempt to restore individual reserves and stabilisation credit provisions and the Senate retained these provisions in its Bill as passed on June 19, 1935.

Witte himself was influenced by his former teacher, John Commons, who was also a Wisconsin labour economist, providing the intellectual and philosophical foundations for the conservative Wisconsin model of social insurance. However, he did not pursue doctrinal purity by adopting a Commons-style approach which attempted to make social responsibility profitable to capitalism's managers, or a more radical effort to achieve a massive redistribution of wealth. Rather, he and his followers made the most of their decisions with constitutional, political, fiscal and other technical considerations, and made the programme politically acceptable. Instead of claiming superiority for either pooled or segregated funds, he favoured the co-existence of two systems, tried to conciliate the various groups and factions and to encourage experimentation and disapproved of the schisms among advocates of unemployment insurance. His pragmatism led him to insist on the Wagner-Lewis Bill which resembled a federal-state system.

June 30, 1934, box 56, CES files; interview with Wilbur Cohen, July 28, 1964, Washington, D.C. Quoted from Schlabach, 1969, p.102.

The Labour Movement

The involvement of American labour organisations in political activities in the United States is understood in terms of the pattern of pressure group politics rather than party politics. This was consistent with the basic structure of the American political system and its ideology and traditions. From the 1880s onwards, the political tactics of the American workers were supplementary to rather than in competition with, the political parties. Although from the beginning, the organised labour understood that many problems facing them could only be answered by government as only the government could determine the well-being of the working population, they recognised the need to influence government decisions. The leaders of organised labour made constant and vigorous efforts to affect legislation in the state legislatures and in Congress.

As opposed to their European voters, most American workers were less class-conscious. The traditional exhibition of no clear-cut ideological differences among American parties has reflected the fact that there is a broad national consensus and lack of strong class divisions in the United States. Workmen believed in their ability to become members of the middle-class and were therefore reluctant to show much interest in the labour movement. In addition, the heterogeneity of wage-earners' characteristics, the free interference of employers in labour organisation, the states' acceptance of restrictions on the labour movement and the government's legislation which fostered the popular mistrust of the labour movement as a collectivist force -- all inhibited the development of the American labour movement.

However, between 1933 and the start of World War II, the growth of the American labour movement was spectacular and the 1930s was a significant decade for the American labour movement. This was due both to government encouragement and to a modest economic recovery from the worst years of the depression. The attitude of the Government to the labour movement changed from toleration to positive encouragement and the Great Depression had a considerable impact on the American trade-union movement and eventually caused fundamental changes in its structure. The labour movement started to become a vital and powerful force on the American scene.

Compared with the crucial role of the administrators, social workers and intellectuals in determining the very features of the unemployment insurance provisions in the 1935 Act, the influence of the labour movement was relatively negligible. Although at a crucial time, labour spokesmen subsequently made it clear to Senators that they wanted the administration's bill passed, William Green of the American Federation of Labor (AFL)

lobbied their preference for the subsidy system and compulsory pooling, and their belief in the futility of state experimentation. There has not been the close historical and institutional links between the Democratic Party and the trade union movement that one sees in Britain between the Labour Party and organised labour (Grant, 1986, p.155). Their lack of enthusiasm for participating in discussions, their traditional role as a pressure group rather than an independent political party and the disadvantages they confronted stemmed from popular mistrust of unions and restrictive state laws. All these factors combined to prevent organized labour from becoming an influential group in the formulation of legislation which usually effected its interests.

Organised labour, in general, believed that the role of government should be limited. This attitude partly reflected philosophy and was partly based on their own experiences of being treated in an unfriendly way by society. Even unemployment insurance was seen to exemplify a strategy of a government which sought to enslave the wage-earner. The political tactics of the labour unions were related to their presumption that the worker was a free citizen rather than a member of a special class and to their general belief in the potential of the American economy. For American labour leaders and their followers, the next year would always be better than the present one and the remedy for any discontent could always be forced within the framework of American political life. Their attitude was related to the fact that, to a large extent, the continuous expanding economy and wealth of the country enhanced the social mobility caused by people's seeking a better life and standard of living for themselves and their families.

The Business Circle

According to the 'elitist' explanation of the American political system, the American system has in practice a much greater concentration of power, although it is based on the theory of decentralization of authority. As far as the important issues are concerned, only a closely knit group of economically powerful leaders can exert an effective control over policy making (Grant, 1986, p.142). During the debate concerning segregated reserves or pooled funds for unemployment compensation, the employers' demand to fit an unemployment insurance system to their own needs had considerable impact when the social security bill was discussed and the final outcome contained the considerations of the President and people such as Witte with the interests of businessmen. Most businessmen preferred to contribute only to their own firm's fund. A few others, who had already established voluntary unemployment benefit plans, had an interest in individual reserves.

During the formulation of the programme, Roosevelt and Witte, Director of COES, were careful to consult the business leaders who made up the Commerce Department's Business Advisory Council. The Committee's failure to recommend a national uniform system for unemployment insurance was evidence of the fearfulness of the Roosevelt administration in the face of the opposition of employers. Witte and his followers allowed segregated unemployment reserve funds, as, firstly, it was employers' almost unanimous preference; secondly, it suited Roosevelt's principles of social insurance which were to provide an incentive for employers to stabilise employment, and not lead to deficit financing and subsidies from the general treasury. The aims of the reformers to introduce unemployment insurance were not just to provide relief for the unemployed but also to encourage businessmen to improve economic efficiency.

The social security bill went through several important changes in Congress in order to win support from conservative and business circles. Congress made Title I, which provided a 50 per cent subsidy for state pensions to the elderly poor, more acceptable to conservatives by removing essential federal standards. Congress made the unemployment compensation titles more conducive to the individual employer reserves even than the original bill, which most of the dissenters, such as the supporters of the Ohio plan, disliked. The final bill even omitted the requirement that 1 per cent of the payroll (one-third of the tax offset contribution) be pooled.

Part Three Conclusion:

The relatively late introduction of social security legislation for the unemployed in America was due to the individualistic tradition, the territorial diversity of the country and the lack of political pressure from organized labour and in particular from the unemployed. Although its relatively late industrialization started to cause some problems for society at the end of the last century, their negative effects were not apparent. People still believed in the opportunities to improve their living standards. Because poverty was normally regarded as the result of individual faults, local and private relief rather than state or federal support were encouraged. From the first decade of the century, social insurance was advocated by the small groups of reformers, as they realized that the personal factor was only a small part of the problem of unemployment and that social welfare should provide minimum security for people. When social reformers campaigned for positive state action to deal with the social problems in the 1920s, the compensation laws adopted in most states of the country were financially inadequate and unstable. Employment stabilisation through the efforts of the individual employers was regarded as a relevant means of preventing unemployment at that time. The advocates of

unemployment insurance still believed that it should be voluntary based in order to avoid too much government intervention.

Although both the Democratic and Republican parties have a tendency to adapt to changing situations and accommodate various orientations which reduce the ideological differences between them, the former is more likely to seek social change, and support government interference and a strong role of presidency in the country's economy and welfare programmes. The Republican Party under Hoover maintained a different attitude from the Roosevelt administration of the Democratic Party in dealing with the country's economic problems during the Great Depression. Based on his belief in *laissez faire* policy, Hoover introduced relief programmes for the people in need which relied on local charity efforts and assistance programmes for businesses to urge their initiative in economic recovery.

After the Democratic Party won power, the new President adopted a series of steps, in the name of the New Deal, to achieve his political goal and restore the economic confidence of society. The various methods the Roosevelt's administration adopted to deal with deteriorating living standards revealed the influence of conventional ideas before the Great Depression. This may also be regarded as one of the reasons for the late introduction of federal legislation. A voluntary insurance scheme was still commonly supported in 1933. However, economic depression did not just bring about distress for those who lost their jobs and their dependents; it also provided an opportunity for putting unemployment relief measures onto the agenda. Aware of changing social attitudes to the problem and the potential danger of political disorder, Roosevelt committed himself to giving security to people during the election campaign and suggested introducing social insurance to protect the individuals.

During the discussion of formulating unemployment insurance in America, participants were basically divided into two groups: the Wisconsin and Ohio. While the former focused on prevention of unemployment by pursuing individual employers to stabilise job security and alleviate the economic crisis, (therefore, redistribution should have been insignificant,) the latter reflected the influence of the European model which argued for the redistribution of income with three-parts contributions and the Federal government's intervention. The Ohio group maintained that the individually reserved funds of the Wisconsin model would not be able to provide adequate benefits for the people in need.

Social insurance was accepted as a necessary measure but to find a middle way between these two different approaches was not an easy task for people who were responsible for

setting up proposals of the programme, as businessmen preferred the Wisconsin plan while social workers and reformers gave their support to the Ohio plan. Witte and his colleagues from the Committee on Economic Security were aware of the danger of gaining support from one group and opposition from the other. In order to secure the approval of different groups, businessmen, labour, social reformers, insurance experts and Congress, for their idea, it was crucial for them to make some compromises. However, the conservative Act reflected the anti-redistributional style of the Wisconsin plan, as one criticism of pressure group politics in America argues that the diffuseness of the formal structure of government and the checks and balances in the system give those groups, who wish to prevent change, some opportunities to obstruct the social reform desired by the majority of the nation (Grant, 1986,p. 158).

During the legislative debate on the social security programme, the President and some administrators, like Witte and Miss Perkins, played decisive roles leading to the passing of the Bill. Witte's capacity to perceive the possibility of agreements between the different approaches to unemployment insurance and the influence of his position as director of the COES were noticeable. They based the proposal on constitutional, technical and political rather than doctrinal considerations.

The detailed character of the final programme reflected a distinctive political system in America in which state autonomy was a key feature. Thus, federal-state cooperation was an important precondition for the operation of policy. In the 1935 Act the state was granted freedom. In its final form, the only condition contained in the bill, which was 1 percent pay roll tax as the employer's contribution to the state pooled funds, was excluded; states were allowed to fix different tax rates for the individual employers. This was connected to the pragmatic thinking of Witte for the sake of the passage of their Bill, as support from the different states was crucial and the variety of their situations could not be ignored. This arrangement was also compatible with Roosevelt's idea of the state-federal cooperation for the unemployment compensation programme. The political structure of America made it impossible to lay down uniform requirements and standards in terms of unemployment benefits. The scheme provided economic incentives, namely experience-rating, for individual employers to maintain full employment and to take responsibility for their employees, as the Wisconsin model preferred. Unemployment benefits which reflected the individual needs of the employers were a response to the pressure from the business group. The President and others involved in the formulation process of the programme made predictions of the possible reactions the employers might have to the directions they were taking.

Pressure groups are different from political parties in that, as organised forces, they attempt to influence government policy rather than, as institutions, control the government and enter candidates in elections for office. In a democratic system, the importance of pressure groups is connected with the two-way process of political communication between the ordinary American citizens and the decision makers; they can convey demands, ideas and reactions of the former to the latter. Pressure groups such as business executives, trade union leaders, farmers, and professional bodies all have a particularly significant impact on decisions in the domestic field. As 'interest groups', they have important economic power whose primary goal is to protect, defend, and promote the interests of their own members rather than securing the interests of society as a whole.

However, compared to the crucial function of the President, administrators and some economists, the pressure groups did not have a remarkable impact on the outcome of the political debate over the unemployment benefits legislation. Organised labour in America focused on economic gain rather than independent political action. Unlike its British and Swedish counterparts, it did not have close link with the Democratic Party, the party of 'people'. It lacked systematic philosophy and class consciousness, and rejected socialism as the means of achieving its goals. The labour movement was therefore different from the notion of a 'pressure group' referring to all those organisations which seek to promote political objectives; distinguished from the many social groups, their objects have political content (ibid., p.141).

Since the beginning of the century, the organisation of the big businessmen, the NCF, had been conscious of the social problem and sought to build a harmonious relationship between labour and employer, by promoting the sense of social responsibility of employers and setting up some welfare works and uniform state legislations. It was concerned with the possible cooperation between organised labour and socialism. The force of the labour movement was weakened. As far as the enactment of the 1935 legislation is concerned, organised labour did not exert much influence and did not participate in the decision-making process, although the introduction of unemployment insurance clearly affected their interests. The Ohio group which was seeking to provide sound payments for the unemployed by its pro-redistributional programme failed to get sufficient support from organised labour. In the final stage of the process, some of the business group were dissatisfied with the programme; however, the Social Security Bill passed through Congress without any changes.

Chapter Six

Comparative Analysis of the Original Unemployment Insurance Scheme of Britain, Sweden and the United States

In this chapter, I undertake a comparative analysis of decision making process in the initial unemployment insurance schemes of Britain, Sweden and the United States. The discussion consists of four parts. Part One provides a brief discussion of the advantages of social insurance in contrast to social assistance, while Part Two attempts to give an explanation of the similarities and differences between unemployment insurance schemes in the three countries under investigation when they were established. Part Three aims to explore and identify the reasons for the differences described in the previous part; In Part Four, a conclusion is put forward.

Part One The Basic Principle of Social Insurance in Unemployment Compensation

In this part, I discuss some basic principles of social insurance systems and their advantages in comparison with the other welfare systems.

The basic principles of social insurance provide grounds for allocating benefits to individuals or groups and rules for determining how the benefits are to be allocated. They are different from the reasons and motives for introducing the benefits which are derived from complex interactions of socio-psychological and economic and political factors and are often only subsequently developed in the process of policy formation (Bolderson and Mabbett, 1991, p.29).

Compared with social assistance, the principles of social insurance incorporate a strong link between eligibility and participation in the labour market. Benefits correspond to contributions and thus to work and employment (Esping-Andersen, 1990). Eligibility is therefore not triggered by the mere presence of a social right, it is rather earned through contributions. As far as unemployment insurance is concerned, the unemployed are eligible to claim benefits, provided that they have worked for a substantial period, and are capable of and available for work. Payment to the claimant prevents him from becoming destituted and when he draws unemployment compensation, the worker can maintain his self-respect (Haber and Murray, 1966, pp.28-9). Recipients are entitled to payments from funds to which they have contributed during their working lives as respectable workers and wage earners. Hence, the industrial working class is awarded a dignified or

upgraded social status (Olsson, 1990, p.42). Unemployment insurance does not attribute fault or blame.

In social insurance, eligibility is determined on the basis of the categorical assessment of need. In his conclusion to his discussion of justifications for making social security payments in response to the recognised needs, Barry (1990) argues that this is based on the idea that 'those who suffer through no fault of their own have a valid claim against the more fortunate' (p.101). Payments for recognised risks are based on strong entitlements and resource allocation is made by political, bureaucratic and professional processes, while transactions are realised through impartial administrative provisions rather than through personal relationships (Bolderson and Mabbett, 1991, p.24). Contributory insurance schemes have their roots in bilateral market exchanges. They are restricted to those who are considered to be in need by virtue of a recognised contingency and their contributions, and entitlement therefore is related to the rewards of the market system. The importance of this criterion in social insurance is that, while providing security for those whose income is inadequate, it can maintain incentives for work (ibid., p.174).

The instruments of social insurance provide the modern welfare state with a mechanism for treating its members equally. The principle governing the provision of benefits is based on the concept of equal protection against risks, the rules determine entitlement to benefit being based on a category of recognised risk. It ensures the state's intervention in dealing with the problems of risk and misfortune and permits a fair redistribution of income (Baldwin, 1990, p.2). Social insurance involves a pooling of risks rather than resources; it involves less of a redistribution of wealth than a reapportionment of the costs of risk and misfortune. Redistribution is primarily horizontal rather than vertical and involves transfers between risk categories (from healthy to sick, employed to unemployed, young to old and so on) rather than between classes or income strata (from middle class and working class, rich to poor etc.)

Although social insurance is based on the principle of horizontal redistribution, it invariably involves vertical redistribution as well. In contrast to Persson, who argues that the redistribution is 'between risk-groups, types of households, and over the life-cycle of households' (Persson, 1986, p.13), Esping-Andersen and Korpi (1987) assert that the development of social welfare state has been concerned with redistribution between classes in society, responding in particular to the interests of the working class. Through the pooling of risks in the community, the individuals no longer bear the burden of uncertainty alone but rather as equal members of a larger group or even possibly of

society as a whole. Insecurity and the means of moderating its effects are not decided on a private bases but in accordance with standards of equity accepted by society as a whole.

Part Two The Similarities and Differences between Unemployment Insurance Schemes in Britain, Sweden and the United States

In this part, I give a brief description of the different features of the unemployment insurance systems in the three countries under review and examine the significances of the different experiences of the three countries in their efforts to deal with the problem of unemployment by enacting social insurance legislation.

In his identification of three highly diverse regime-types, Esping-Andersen (1990) claims that the first welfare-state regime-type, the 'liberal' welfare state, is characterised by means-tested assistance, limited universal transfers and modest social insurance schemes. Rights are not so much attached to work performance as to demonstrable needs. Yet, entitlement rules are strict, benefits are typically meagre and associated with social stigma, in order to maintain the dominance of the market. Private welfare schemes are frequently subsidised by the state. The 'liberal' model shows a strong influence of traditional, liberal, work-ethic ideology which was precisely reflected in the nineteenth-century poor laws in many countries.

The second regime-type is the conservative and strongly 'corporatist' welfare state. In this type, the state replaces the market as a provider of welfare, hence, private insurance and occupational fringe benefits play a marginal role. However, because the preservation of status differences is of central importance in this model, rights are connected to class and status, and the extent of redistribution level is low.

The third regime-type is labeled 'social democratic', since dominant social democratic force are frequently associated with social reform in this model. Unlike the other regime-clusters which preserve the dualism between the state and the market,⁷⁰ different strata of

70. Among nations which adopt either a social-assistance or a universalistic Beveridge-type system, there are two alternative models with regard to the political choice of whether the market or the state is supposed to provide adequacy. Beveridge predicted the development of private insurance system as a supplement to the basic subsistence benefit. However he started with the presumption that the vast majority of the population regarded modest, egalitarian benefits as adequate. However, once the prosperity of working class is growing and the new middle class is rising, they will inevitably seek for private insurance as a supplement to modest social insurance benefits. As a result, there is a dualism as in the

society in this model are incorporated into one universal insurance system. Benefits are related to normal earnings, which means that benefits levels are fixed in accordance with the requirements of the middle classes. A peculiar feature of social democratic regimes, compared with the other two regime-types, is their commitment to full-employment as an integral part of the welfare-state, based on the belief that the combination of work and welfare is the best way to maintain solidaristic, universalistic welfare programmes without causing serious social and financial problems (Esping-Andersen, 1990, p.28).

Based on Esping-Andersen's description of the three welfare state models, the United States and Sweden can be regarded as representatives of the first and third respectively, while Britain is characterised as a mixture of the two (Ginsburg, 1992, p.23), or, alternatively, as 'liberal' but in less extreme ways than the United States. The classification is helpful for our analysis of the distinctive features of the welfare programmes in different countries. At the same time, however, it is worth mentioning that each of the three models identified by Esping-Andersen may offer a better account of the subsequent development of social security than of its original establishment. If so, an analysis of the three types of welfare state will be less appropriate for an understanding of a single programme, such as unemployment insurance, in its early stages. Secondly, although it is relevant to focus on the differences contained in the three welfare state regimes, this does not imply that there are no similarities between them. Esping-Andersen himself argues that the three regime-types may share some characteristics. For example, Scandinavian social democracy has embraced important aspects of liberal regimes, and the liberal American welfare state had some social democratic characteristics in its early, New Deal phase. However, his classification of the distinctive features of the three types is largely based on the 'quality of social rights, social stratification, and the relationship between state, market, and the family', rather than on 'scales of more or less or, indeed, of better or worse' (Esping-Andersen, 1990, p.29).

Therefore, instead of analysing the diversity of the three welfare state regimes in general terms, I will pay attention first to the individual unemployment insurance programmes in the three chosen countries, and, in particular, examine how they were initially dealt with by policy makers in these countries and what were the similar and dissimilar features of the decision making process in each case. Redistributive decisions in unemployment insurance of Britain, Sweden and the United States were taken in different historical and

social-assistance state: 'the poor rely on the state, and the remainder on the market.' (Esping-Andersen, 1990, p.25). In Britain and most of the Anglo-Saxon world, there has been an emergence of dualism in which the state furnishes essentially modest levels of benefit and the market is allowed to satisfy middle-class aspirations for superior welfare.

national circumstances. Complex interactions between groups in society, due to the varying patterns of income, different risk profiles and divergent demographic trends, the different attitudes of decision makers in the three countries influenced by their different ideologies, and the divergent basis of class supports for the governments, were reflected in the unemployment insurance schemes of each of those different countries in various ways.

During the policy making process, politicians take into consideration a range of policy choices. These alternatives determine what benefits are to be offered to whom, how these benefits are to be delivered, and how they are to be financed (see Chapter One). Gilbert and Specht (1974) express the four major dimensions of choice in this framework in the form of the following questions:

1. What are the bases of social allocations? This refers to the choice among the various principles upon which social provisions are made accessible to people and groups in society.
2. What are the types of social provisions to be allocated? This refers to the forms in which benefits are delivered.
3. What are the strategies for the delivery of these provisions? This refers to the alternative organizational arrangements among distributors and consumers of social welfare benefits in the context of local community systems.
4. What are the methods of financing these provisions? This involves the various sources through which social provision flow, usually in the form of cash, and the conditions placed upon this movement up to the point of distribution. Some of the major alternatives in financing social welfare policies concern whether the funding source is public, private, or mixed; the level of government utilized, and types of tax levied for public financing (pp.28, 30-32).

The provision of benefits can be categorised into three main approaches. The first is the payment of benefits as a right, without a means test, to people in defined categories when they encounter specified contingencies. The benefits may be financed from general revenues, special taxes, contributions by employers, or by workers or by a combination of these in varying proportion. The second which uses a means test and varies the benefits according to individual circumstances, is designed to provide only for the subsistence of the poor. The system is non-contributory and the funds required are provided from the ordinary public revenues. The third is to provide benefits to all

members of the community which can be financed from ordinary public revenues or special taxes (Richardson, 1980, pp.40-41).

According to the contributory principle, benefits should be provided as far as practicable from revenues to which the beneficiary contributes a substantial amount, either by special taxes or by social insurance contributions. There are two types of contribution under this principle, one is public and another is private. Usually, public types are compulsory and clearly constitute a form of tax. They involve a pooling of risks, with contributions and benefits being calculated for subscribers collectively and usually on a pay-as-you-go basis. These social security taxes 'are imposed on the "benefit" principle' and 'should be related to the whole tax system to ensure that taxation is distributed equitably among the different sections of the population. This will assist in determining the proportions in which the cost should be borne by individuals in the beneficiary classes, by employers and business corporations, and from general revenue' (ibid., p.46). The argument for this is that it can provide greater protection, resources will be transferred from the richer to the poorer sections of the community and benefits can be increased to reflect higher standards of living, and escape inflationary effects. But public provision gives rise to the problems of higher taxation and a poor return for higher earners (Adler, Lecture Notes, 1989).

By contrast, 'private provision' is usually voluntary, with contributions and benefits being calculated for each individual subscriber and the funds are usually invested. One advantage over public provision is that taxation can be kept down, and subscriber can select schemes to suit his or her preferences and can reap dividends if the funds are invested well. However, private provision is less redistributive, provides poor protection for poor risks. On the other hand, there are problems with inflation proofing and in providing increases to reflect higher standards of living.

In the context of the non-contributory principle, public assistance is the main means of dealing with people's problems. It is the successor of the old 'Poor Law' system, in that payments are made only to the poor on evidence of severe need and from ordinary public revenues. Public assistance is normally required when people become the victims of society, so that they and their dependents can manage to subsist. In any community, public assistance is an inevitable and permanent feature of any system of social security. There will always be some people whose circumstances are such that at times they will be in need of assistance, and no individual provision or collective system of social insurance will be comprehensive and flexible enough to meet all the uncertainties and contingencies that life involves. These uncertainties and contingencies can be met only for special

circumstances. Although the non-contributory principle has merits, it encourages people to depend upon public assistance which can engender stigma and an administrative burden due to the costs of means-testing. Thus, it is often reserved for a residue or minority of people and regarded as a last resort.

In Britain, the 1911 unemployment insurance system was financed by contributions from employers, employees and the state, contributions and benefits were both flat rate. The tripartite contributions took into account the experience of the pension scheme introduced three years previously which indicated that a comprehensive non-contributory scheme (financed only by general taxation) was impractical. The level of flat-rate benefits was set low, at a minimum level, in order to maintain work incentive and not discourage voluntary provisions.

The Americans adopted experience (merit) rating system for their 1935 unemployment insurance scheme, i.e. the tax an employer was required to pay was related to his unemployment benefit payments. Only employers could make contributions to the scheme. Payments of taxes by employers varied in the different states in order to reflect local circumstances. Unemployment insurance benefits were earnings-related, paid as a percentage of the wages which the unemployed had earned. In order to qualify for benefit, the unemployed must have had certain amount of earnings and period of employment. The states which established financially sound unemployment insurance allowed their employers to gain the rights of tax off-set from the Federal government. The American style of contributions by the employer alone indicated that the employer was expected to compensate employees who lost their jobs and therefore to bear the responsibility for their employment.

In Sweden, voluntary unemployment insurance funds (UI funds) were the main means of unemployment compensation. They were organised by the unions and dependent upon the contributions from employees and employers as well as state grants which could be applied for, provided the fund was approved by the state. Employers' contributions were paid as a percentage of the total payroll. Government subsidies varied considerably between the UI funds, especially according to the rate of unemployment. The LO and SDP accepted the idea of earnings-related benefits preferred by the Liberals. Although the funds were formally associated with labour unions, the government decided the most important regulations of the funds, such as the rules regarding the benefit levels. In order to get state support, the funds had to follow stringent rules. As a result, most of the societies chose to stay outside the state-supported system in the 1930s. For new entrants

in labour market, who were not covered by the UI funds, the government operated cash benefit assistance, a secondary compensation system.

In the United States, the Wisconsin and Ohio schools represented two different ways of addressing the redistributive role of social insurance and the financing of unemployment insurance. The Wisconsin plan, which reflected the individualistic tradition in American society, laid a stress on the prevention of unemployment rather than the amelioration of its effects. It assumed that individual employers had the capability to stabilise employment. In order to maintain their incentive to regulate employment, individual employers were to bear the financial responsibility for unemployment compensation. The unsuccessful experience of the British unemployment insurance scheme in the 1930s strengthened the belief of the Wisconsin reformers that European approaches to unemployment were unsuitable across the Atlantic. The problems of the British system in the 1930s were caused by higher benefits and extended coverage after a series of revisions in the 1920's.⁷¹ In contrast to the Wisconsin school, the Ohio school argued for the British type of unemployment insurance which included contributions from employees and stressed the need for adequate levels of financial support for the unemployed. Although preferred by intellectuals, social workers, clergymen and reformers, the Ohio plan, however, failed to get the support of organised labour. The final form of the Bill produced by the Committee on Economic Security, which was set up by the President in 1934, supported the tax offset.

The contributory principle contained in unemployment insurance schemes implies that benefits were strongly based on the eligibility the recipients could themselves earn. The unemployed must have worked and built up a record of contributions in order to be

71. The original British unemployment insurance act was limited in its coverage and benefits because of its experimental nature. The duration of modest weekly benefits was limited to a maximum of 15 weeks in a 12-month period and was further limited to one week of benefits for each five weeks contributions. In 1920, the British government made amendments to the original Act by extending its coverage and increasing benefits. All workers between age 16 and 65, except those in agriculture, domestic services, civil servants, railway and public utility employees, and white-collar workers earning over £250 a year, were brought into the programme. Benefits of 15s. for men and 12s. for women were introduced. Yet, almost soon after the 1920 act took into effect unemployment began to increase. During the next 19 years, unemployment rate was 12.7 percent on average and rose to 21.1 percent in 1931.

As local government was unable to finance local relief which was used as an alternative programme to unemployment insurance for the large numbers of unemployed, conditions for unemployment insurance benefits were relaxed and the duration of benefits was extended. Nearly all workers under contract of employment who were earning modest wages were then covered by the scheme. As the result, spending on the scheme was increased and became an important component of government expenditure. Unemployment insurance was under a great financial pressure and levels of benefit became inadequate by 1931 (Haber and Murray, 1966; Bolderson and Mabbett, 1991. Also see later).

entitled to the state benefit. This arrangement reflected a mixture of the collectivist and individualist thinking: first, the state accepted responsibility for protecting anyone who was qualified for insurance benefits and treated everyone with that contingency equally. Second, individuals' rights for the benefits were related to their previous employment and contributions received. In this sense, they could be regarded as independent. State intervention became necessary only when the causes of problems were not the individuals' faults and were beyond their personal control.⁷²

Flat-rate benefits which are based on attempts to treat all beneficiaries equally are rather more redistributive than earnings-related benefits (Adler, Lecture Notes, 1989). Yet, flat-rate benefits are usually related to the standards of income of unskilled and other low income groups and do no more than meet basic or subsistence needs. They therefore encourage dependence on private or occupational provision. By this means, they require people with higher incomes to take responsibility for making supplementary provision for themselves and, as a result, they suffer from insecurity. This is because, when they are working, their standards of living are adjusted to their incomes, and if their incomes fall, they will find it difficult to adapt themselves to the standards which a flat-rate benefit provides. If the level of the benefits is too low, it will lead people with low incomes or people without private or occupational provision to depend on means-testing; if the level of the payment is high, it will impose a heavy financial burden on the government and thus on the taxpayers.

Beveridge in 1942 recommended three principles for social insurance scheme: universal, comprehensive and adequate. The first referred to the coverage of the whole population, irrespective of employment status, occupation or income, the second implied the inclusion of all contingencies resulting in interruptions or cessation of earnings while the last meant the provision of sufficient benefit levels without further resources to provide the minimum income needed for subsistence in all normal cases.

Stein (1976) argues that these three principles reflected the three goals of the Beveridge plan. The first goal was that social security benefits should be paid out as a flat rate, the rate being regarded as a social minimum. The second was that all needy families should receive this level of income and the third was that insurance benefits should be preferable

72. Beveridge argued in his 1942 Report that 'social security must be achieved through co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.' (Beveridge, 1942).

to assistance benefits. As a central element of Beveridge's welfare state, the 'social minimum' of welfare based on contributory insurance principles emphasises the importance of people's making their own private welfare provisions over and above the minimum. For Beveridge, compulsory contributions which went beyond the social minimum would offend against the individual's right to determine how best to spend his money (George and Wilding, 1985, p.64). Subsequently, the subsistence level in contributory benefits became the 'norm', while means-tested assistance was available, in the short-term, to those who had not accrued sufficient contributions, or to those with special needs.⁷³ There was, Stein (1976) argues, however, conflict among these goals. Since the benefits of both social assistance and social insurance were set at a 'minimum' level, this was inconsistent with the assumption that assistance should be less desirable than insurance and that should offer lower benefits (pp.40-1).

Under the earnings-related principle, benefits are made according to the previous income and contributions of the person. This leads to equal proportional sacrifices, and reduces need for voluntary provision and the dependence on means-testing. At the same time, however, it reflects the inequalities of market place and reflects the philosophy of the market economy: rewarding success and punishing failure. Applying this principle, unemployment insurance should not encourage recipients to be lazy or 'work-shy', or result in their moral deterioration. However, payments based on earnings-related principle have a tendency to reinforce the unequal economic status of recipients. This conflicts with one goal of welfare state, equality, and beside this, earnings-related schemes are more complex and difficult to understand (See Richardson, 1980).

As far as the coverage of the schemes in the three countries is concerned, the British scheme made it compulsory for all workers in some industries which were vulnerable to cyclical or seasonal unemployment. To include everyone in the state scheme was regarded as administratively efficient and had the political advantage of appealing to the unions and the Labour Party (Harris, 1972). Selective coverage of industries in

73. As one of Beveridge's 'pillars of Social Security', the contributory National Insurance Benefit was the first protection for the unemployed. This theory has based on the high post-war level of employment. However, since the mid to late 1970s, mass unemployment, with social and demographic changes and low economic growth have fundamentally undermined the rationale for a social security system based on the contributory principle. Over the last decade it provided significantly less support for the unemployed than in many other countries and the value of the benefit fell very considerably in comparison to earnings. As a result, in recent years, there had been a marked shift towards means-testing in social security schemes, more and more unemployed and their families were forced to be dependent on means-tested benefits which had become more restricted and limited; as a result means-tested benefits, rather than occupying the residual role predicted by Beveridge, have increased as a proportion of social security spending (Sinfield, 1991, p.12).

unemployment insurance of Britain resulted from the practical concerns of decision makers about the running of the scheme and its experimental nature: guaranteeing the necessary resources in order to finance the scheme. The restrictions on the industries covered and the adoption of the contributory principle ensured the actuarial viability of the scheme (Harris, 1972; Bolderson and Mabbett, 1991, p.65; Derthick, 1979).⁷⁴

Unemployment insurance in Sweden was in principle voluntary for the individual employees. Since almost all workers and officials belonged to unions and, for most labour unions, membership of the Unemployment Insurance Funds was obligatory for their members, in practice, the coverage of unemployment insurance was very extensive. At the same time, union membership was not compulsory for members of the UI funds, but anyone, who worked in a field covered by a UI fund and wanted to join a union, had the right to become a member.

This arrangement originated from the Party's pragmatic strategy of gaining the support of the Liberals for its proposals. The Liberal reformers (Cassel and the CSA -- the National Association of Social Work) and civil servants in Sweden initiated the discussions on unemployment insurance. As early as 1911, they accepted the voluntary idea as the basis of the social welfare system and their preference had a significant impact on social policy discourse in Sweden. The shortcomings of the compulsory schemes of Britain and Germany in the 1930s also encouraged the Swedes to choose a voluntary type. In addition, despite the country's traditional paternalism which was maintained during its rapid industrialisation, trade unions and employer's associations attempted to restrict government intervention to a minimal level. The Swedish approach attempted to ensure a close linkage between unemployment insurance and the trade unions and to encourage a high level of union membership. Those who were employed wanted to join unions and those who became jobless still wished to maintain their union membership. The linkage also gave the trade unions a motive to fight for lower unemployment because they represented a large labour force.

In the United States, unemployment insurance was only available for certain classes of workers in preferred occupations. The 1935 Act covered only about 80% of all employed workers (certain groups of workers in certain occupations); employees in low wage

74. In the British 1911 law, every effort was made to avoid Treasury responsibility and the principle of self-financing social insurance was maintained as late as the Beveridge national insurance scheme. The three-part contribution of the British scheme originated from the calculations by the Liberals of actuarial viability and the relationship between the eligibility and contributions. The national compulsory system reflected the Liberal's dual thinking: government was held responsible for alleviating the problems caused by economic change, but self-reliance was retained.

industries, casual labour, employees in non-profit agencies and self-employed were excluded from the scheme.

The selective coverage of unemployment insurance schemes in these three countries meant that not all workers were entitled for the benefits. This principle marginalised those who needed protection from the state and enhanced the privileges of the better-off, and therefore strengthened inequalities among the members of society. The gap between the rich and poor was enlarged, while solidarity, promoted by the labour movement, was weakened.

As far as the solidarity embodied in social insurance is concerned, Baldwin (1990) argues that there are four elements which can be taken into account. They are: universality, tax-financing, the contributory principle and flat rate benefits. The first factor includes all citizens and implies that they should be treated in the same way despite of their different social status. It promises a common pooling of risks by rich and poor and to dissolve the stigma which welfare measures may otherwise bring to the poor (pp.51-2). Solidaristic policy can be regarded as advantageous for the unfortunate. It represents the triumph of the interests of the poor and the working class. But it is also accepted by self-reliant groups who may for various reasons lose their capability for independence and hope to benefit from solidarity as well. These two aspects can be used to explain the success of solidaristic social policy in Scandinavia since the 1930s and the Beveridge plan and Labour's reforms in Britain (ibid., p.24).

In terms of the role played by ideologies in the historical development of the Swedish social policy, Samuelsson (1975) argues that the idea of solidarity emphasises responsibility for and responsibility to -- a common responsibility of a society for all citizens.⁷⁵ According to this view, society is responsible for the existence of inequalities and poverty and for providing security for all citizens (Samuelsson in Korblik (ed.), 1975, pp.345-6). To decrease inequality between different groups by increasing (extending) security for (to) neglected groups will benefit the goal of integration and solidarity in society. As Esping-Andersen (1990) argues, serving the interests of the least fortunate as much as the better-off in measures for providing protection against insecurity, irrespective of prior earnings, entails strong mobilisation of cross-class

75. Samuelsson points out that the following five ideas can be regarded as the philosophical basis for this development. They are: humanitarianism or mercy; resocialisation or rehabilitation; integration; solidarity; equality and justice; and social security (see Korblik (ed), 1975, p.335).

solidarity (p.25).⁷⁶ The Beveridge reform in Britain, similarly, embodied an egalitarian, comprehensive and all-inclusive social policy and attempted to provide the best protection in the interest of the least fortunate (Baldwin, 1990, pp.6-7). Yet the concept of solidarity starts with a presumption that, a large majority of the population is supposed to regard modest, egalitarian benefits as adequate. However, once the prosperity of working class start to grow and the new middle classes start to increase, they will inevitably turn to private insurance to supplement their modest insurance benefits. As a result, a dualism occurs: 'the poor rely on the state, and the remainder on the market.' (ibid.).

In Britain, unemployment insurance was administered by central government. According to Brown (1971), in contrast to Gilbert,⁷⁷ this owed much to the influence of the Webbs. In the Minority Report of the 1909 Poor Law Commission, they argued that social welfare programmes should be based on national administration. They believed that, in order to tackle unemployment, a national system of labour exchanges should be set up and the poor law authorities should be replaced by a Ministry of Labour, with responsibility for organising the national labour market. Their recommendation received a positive response from working-class groups. In Sweden, the labour unions were responsible for managing the unemployment insurance scheme with subsidies from the government. As part of a long and strong tradition in Sweden, the Unemployment Insurance Funds served administrative functions. The Social Democrats made use of these already existing self-help societies to provide the administration of unemployment insurance. In the United States, the administration of Unemployment Insurance was based on cooperation between the Federal and state governments i.e. it was administered at the state level but granted by the Federal government.

In the course of developing unemployment insurance in the United States, the proper balance between federal and state governments was a delicate question. The Committee on Economic Security and its director Witte adopted a compromise system in the Economic Security Bill. This reflected pragmatic considerations -- to avoid resistance from either the Wisconsin or the Ohio schools. According to the scheme, states that set

76. With regards to the Beveridge model, Swedish social policy showed signs of universality well in advance of the appearance of the new social policy model in wartime Britain, due to its peculiar condition -- rural backwardness and industrial modernization -- in early 20th century. The existence of a large agricultural population alongside a growing semi-urban working class was an important precondition for the steps the Swedes took. Both of these two groups were mobilized in the process of transforming poor relief into welfare policy (Olsson, in Elliott, Mayadas, Watts and Thomas (ed), 1990).

77. Gilbert argues that the features of the Unemployment Insurance had nothing to do with the proposals of Sidney and Beatrice Webb and the Minority Report of the Royal Commission on the Poor Law (Gilbert, 1966, p.234).

up unemployment insurance would get the tax back from the Federal government; employers who made contributions to the state unemployment compensation scheme would get a pay-roll tax reduction (the tax offset). The subsidy system required no standard national benefits or employee contributions and this indicated the impact of the Wisconsin school. In the 1935 Act, the individual reserve funds advocated by the Wisconsin school remained, the various tax rates for individual employers replaced the original one percent contribution to a pooled fund. The states had freedom to decide the amount and duration of the benefits, and the coverage and the level of contributions. The rejection of a uniform national system in the Act reflected the Roosevelt administration's concern with the possibility of a hostile reaction from the business community to the Act.

The different administrative frameworks for unemployment insurance of these three countries indicates that it is possible for a small country to adopt a uniform policy regarding welfare provision. However, in a big country, like the United States, where politics, economy and ethnicity are greatly diversified, the operation of welfare programmes is likely to be decentralised. Local governments will have autonomy to decide the specific regulations under the general direction of central government. The American unemployment insurance scheme reflected the constitutional separation of powers between the federal and state governments. American political parties lack a strong central authority and have a tendency to become broadly-based coalitions of interests which are organised in a decentralised way rather than in a tightly hierarchical structure. The advantage of a de-centralised system is connected to its sensitivity to the different needs of beneficiaries and its ability to reflect the different situations of the different states (or areas). However, it inevitably increases the differences between states and people in similar positions can be treated differently.

When unemployment insurance was established in these three countries, politicians argued about the relationship between job creation and cash assistance for the unemployed, i.e. about which of these two was more efficient in dealing with unemployment and should be given priority. The Americans and Swedes took the maintenance of full employment as their main political goal. Employers were encouraged to play an important role in achieving this goal. Compared with full employment, unemployment insurance was regarded as of secondary importance in their political agenda. This was related to their belief that work was the best way to maintain an individual's dignity. Witte believed that economic security was a broader concept than social insurance. Social insurance alone could not guarantee complete security; the solution to unemployment depended on the combination of private employment, unemployment insurance and emergency relief.

In Sweden, after the World War I, the Liberals (the CSA) stressed job-creation instead of cash support for the unemployed, and the Social Democrats accepted full employment as their major commitment. Wigforss, the leading figure in the SDP, used Keynesian economics to tackle the problem of joblessness. He argued for the provision of work for the unemployed by the government based on the market wage in order to enhance purchasing power. His idea exerted considerable influence on the Swedish model of Welfare and was accepted by the SDP as the basis of their unemployment policy in the 1930s. In 1934, the idea of public work was advocated by some members of the Committee on Unemployment and the SDP. They realised the importance of combining cash payments, insurance benefits and public work to tackle unemployment. Cash benefits were only available after the provision of a job for the unemployed had failed. The state was fully occupied with full employment while the LO took charge of the unemployment insurance.⁷⁸

In Britain, policy-makers concentrated on making the labour market work smoothly. They believed that wholly nationalised labour exchanges scheme would enhance labour mobility, control casual and irregular employment and consolidate collaboration between capital and labour.⁷⁹ Beveridge saw the exchanges as the key for a universal plan to test unemployment insurance claims, subsidise union insurance and extend unemployment protection to the non-unionised workers. Legislation was passed in 1909 after very little debate and no division of the House (Harris, 1977, pp.145-67). Unemployment insurance in the 1911 Act focused on the most unstable and uncertain areas of employment.

In the beginning of this part, I outlined Esping-Andersen's three welfare state regimes. They are inappropriate in explaining the outcome of the Unemployment Insurance scheme of Britain in 1911. It is implausible to argue that Britain's 1911 Unemployment Insurance scheme had already embodied those characteristics of the Liberal regime type described above; as I argued in chapter Three, the scheme was basically a Liberal experiment. To some extent, it reflected market-oriented liberalism, combining the

78. As one of the peculiar features of the Swedish unemployment compensation, ambitious labour market policies are closely related to unemployment compensation (Björklund, Haveman, Hollister & Holmlund, 1991) -- See Chapter Four.

79. Stein (1976) argued that there were some common historical traditions between Britain and the United States in terms of work and welfare. Both countries emphasised the work ethic which attached a stigma to welfare dependency and gave income from work and property a higher status than social security payments. This common characteristic can be attributed to the fact that both descended from the Elizabethan Poor Law (p.28).

traditional self-reliance principle with state assistance. In contrast to Esping-Andersen's argument, white-collar workers as a rising political force did not yet constitute an essential part of the political majority and did not exert much influence on the consolidation of the British welfare state before World War II.

The Liberal reforms which eventually led to the establishment of labour exchange and Unemployment Insurance were introduced for various reasons. They were: the influence of the philosophies of Bentham, Green and Mill on public opinion in previous 20 years; international competition; the failure of the Poor Law to provide help for those in need and public faith in state to cure social problems (based on the experience of the Victorian period). Harris (1972) argues that it is difficult to connect the liberal reform to any single theory, rather it was based on pragmatic decisions. (She gave three reasons for the changes in the Liberals' attitude, see Chapter Three). Although the Government realised the need to respond the demands of the Labour Party in order to stay in power, the social reforms of 1906-1911 should not be attributed primarily to the labour movement. The British government was managed by a small elite at the turn of the century. The political and economic situation persuaded the Liberal government to make the cabinet changes.⁸⁰ The resulting shift of power in the Party gave Liberal figures such as Churchill and Lloyd George, important positions to put their reforming ideas into practice (for more detailed discussion see later).

Although Esping-Andersen's arguments about social democratic regime-type have some validity, they are more applicable to the 'Swedish Model' which was established in the post-war period than to the Unemployment Insurance scheme introduced in 1934. The Swedish Unemployment Insurance scheme was, in some aspects, an exception to the general character of the Swedish welfare programmes and quite separate from other social insurance programmes.

Contrary to popular views, Sweden did not shape its modern welfare system as a reaction to the economic crisis of the 1930s. Although modernisation was already in progress in the mid-1930s, the welfare state came much later. Most of the welfare reforms were initiated in the relatively prosperous period after 1945. The basis for Sweden's reputation as a model of the welfare state, the so-called active labour market policy involving a crucial link between economic and social policy, was first developed

80. The deteriorating unemployment stirred up the hostile reaction from the unemployed. The Labour Party and the trade unions demanded change of the government policies. The Labour Party's Unemployed Workmen's Bill of 1907 (reintroduced in 1908) acted as pressure for the Liberal government to take more positive action.

by the trade union economists Gösta Rehn and Rudolf Meidner in the late 1940s.⁸¹ It is therefore incorrect to argue that the Social Democrats already had a complete blueprint for the modern welfare state in the 1930's. Social reform was a top priority for the Social Democratic depression cabinets, but, by and large, political energies were concentrated on the immediate problems of crisis management and economic relief. The essential characteristics of its welfare state appeared as a result of politicians' willingness to overcome immediate difficulties rather than an attempt 'to realise systematically conceived ideas of the good society' (Davidson, 1989, p.127). In order to meet the societal demand to solve the problem of unemployment and protect the well-being of the working class in a newly established democratic system, the Social Democratic Party had to build up the programme in a way which would be politically acceptable to other parties and pressure groups, and was financially possible.

The Swedish 'Third Way' first appeared in the pre-war period, in the form of a 'people's home' (*folkhem*) liberated from class conflict and social injustice. In the early 1930s, policy was based entirely on the values of social solidarity, equality and fraternity which provided the basis for new social welfare programmes. The aim was to create a general safety net that would eliminate the need for humiliating means-tested forms of assistance. However, it was only after the Second World War that these programmes were gradually put into practice, and as a result of profound economic and social changes, the Government attempted to find a socio-political middle way suitable for conditions of solidarity.

According to Esping-Andersen, the American welfare system is regarded as in the 'liberal' style which is associated with individual independence and limited public support. The unemployment compensation programme of the 1935 Act complied with the dominant ideology of the society. However, in order to understand better the reasons why the scheme had these features, we should look at the political structure of the country and the pragmatic thinking of the people involved in the policy making process.

The 1935 Social Security Act reflected the changing attitude of the public to Federal government involvement in social measures. Political disaffection caused by the hardship of the depression persuaded the Federal government to take more positive action to tackle

81. The idea behind it was that at any particular time, the level of demand varies considerably between different sectors of the economy. In sizeable sectors, general measures to stimulate demand in order to maintain full employment would lead to an inflationary overheating of the economy. It is therefore more efficient to maintain a moderate overall level of demand in the economy, and to combine this with selective labour market policies such as public works projects directed towards particular areas and sectors with employment problems.

unemployment. The political support which President Roosevelt gained from the large number of recipients of his various unemployment relief programmes can be regarded as an important basis for the 1935 Act. With these measures, he attempted to restore the confidence of the economic sector and achieve political stability for the nation. The requirements of the time, particularly the need to solve the economic crisis, demanded strong action from an activist President and Executive. During the years of the depression, the Democratic Party controlled both the Congress and the Presidency for its major part, and legislators tended to support dynamic presidential initiatives (Grant, 1986, pp.68, 72).⁸² Although Democrats and Republicans had different styles and approaches, there were no deep differences in ideology between them. Both parties responded flexibly to social change and in absorbing minor parties to broaden their coalitions. Between 1933-1935, politicians were cautious in dealing with the two alternative models for financing unemployment insurance which had been put forward, in order to not offend either of their supporters and gain the support of businessmen who insisted on the idea of prevention since this gave individual employers incentives to regulate employment.

People, such as Witte, Andrews, Perkins and the members of the Committee on Economic Security, composed of by university intellectuals, businessmen, representatives of foundations, exerted significant impact on the decision making process, by influencing political leaders with their knowledge and experience. They did not make their decisions on the basis of social welfare doctrines, but on the basis of constitutional, political, financial and other technical concerns. Witte's tax offset device won support from Roosevelt, who was concerned with the financing of social insurance and believed that unemployment compensation could promote stabilisation. The choice of the tax offset device was attributed to Witte's and the Committee's belief that it would probably meet less resistance from business. The passage of the Economic Security Bill in Congress was, to a large extent, due to their efforts, as it failed to get support from the business community or from organised labour and disappointed the advocates of social insurance, such as social workers, labour legislation experts. Although Witte played a remarkable role in the whole process, nevertheless, as Miss Perkins claimed, it was not experts but Congress and the President who ultimately decided social insurance policy (see later).

82. There are different conceptions of the President's role among Democrats and Republicans. The former regarded a strong Presidency as the most likely method of securing what they saw as much needed reforms, while the latter supported a far more limited role for the federal government in the economic and social affairs of the country and opposed large and, in this view, inflationary spending programmes (Grant, 1986, p.184).

The discussion of the different introduction of UI in Britain, Sweden and the United States reveals that, on one hand, the introduction and development of social insurance reflected some common social principles and aims, on the other hand, it was also constrained in practice by specific circumstances. When the initial UI scheme was established in these three countries, policy makers demonstrated their preference of job creation to cash support in providing help for those who were more vulnerable to unemployment. In addition, they also stressed the strong link between eligibility and participation in the labour market and the cooperation of state assistance and individual responsibility in maintaining social security. Yet due to the different historical legacies, policy makers in these three countries made their own final decisions concerning financing, coverage, benefit levels and administration of the initial UI scheme, on the basis of the political and financial grounds. For example, the decentralised administration of the American UI scheme was adopted by the policy makers in reference to the political and economical diversities in the country and the constitutional separation of powers between the Federal and the state governments.

Following the above account, it can be further argued that the generality of common principles underlying policy can always be challenged by the complex reality. For example, flat-rate benefits are usually low and therefore encourage dependence on voluntary provisions. Earnings-related benefits, in contrast, reduce need for voluntary provision and means-testing and are related to previous standards of living. Yet, in countries where wage differentials between skilled and unskilled workers and between different industries and regions are narrow, flat-rate benefits are more suitable than in countries where they are wide. In countries where the wages of skilled workers are much higher than those of unskilled, it may be preferable to have two or three rates of benefit instead of a single uniform rate; each rate will be for different grades of workers with appropriate earnings in order to relate benefits more closely to earnings. In this case, however, the administration of the system will necessarily be more complicated and the number of different grades should, therefore, not be too large. In addition, earnings-related benefits reflect and reinforce the inequalities of market place.

The selective coverage of UI scheme in these three countries resulted either from the policy makers' concerns for its actuarial viability or from their concessions to their political rivals. It however had a tendency to weaken solidarity promoted by the labour movement and, as a result, to increase disparity among the members of society. In contrast, all inclusive policy, which treats all citizens on an equal footing regardless their different social status, will be in favour of the integration of society. However, if the

policy assumes that modest benefits are adequate for the majority of the population as did the Beveridge reform, it will encourage a dualism in provision of the benefits, i.e. the poor have to rely on the state and the better-off on the market.

Part Three The Reasons for the Different Characteristics of Unemployment Insurance of the Three Countries

Based on the earlier discussion of factors which were important for the decision-making in respect of unemployment insurance in Chapter Two, in this part I look at possible explanations for the differences in this legislation in these three countries.

The differences in the original unemployment insurance systems of the three countries indicate that, due to the free political institutions and the open competition of ideas, and different policy making contexts in the different countries, similar patterns of response, formulation and implementation appeared in one policy area can not be easily found. The realisation of the egalitarian principle by the welfare system is varied between different nations at given time and the different periods of welfare development of any one country. The flexibility of the democratic policy process enables us to see how countries treat social policies in an innovative, dynamic way and how political and administrative forces shifted their goals, priorities and resources within the institutional constraints (Ashford, 1986, p.312).

The significance of making broad comparisons, (in addition to detailed comparisons as I did in Part Two), is that it can help us see more clearly the unique contributions of each country to advancing the notion of the welfare state. We can also understand better how each country invented its own arrangements in the development of welfare programmes to realise social justice, cross-class equality and political control,⁸³ how the institutional regulations represent the underlying and persistent political values of the system. The following discussion focuses on the different experiences these countries had in dealing with the problem of unemployment. From this account, I attempt to discover the causes, motivations and social constraints for the specificity of their Unemployment Insurance schemes and gain a better understanding of the decision making process in the field of unemployment compensation.

83. Social security can be regarded as a good arena in which comparisons of different approaches and functions between different countries can be made (Bolderson and Mabbett, 1991).

To compare social security policies of Britain, Sweden and the USA is a complex task in which the attribution of welfare state development to a single powerful causal force would be unsound (see previous discussion in Chapter Two). The governments of these three countries were all confronted with a serious problem of unemployment and this problem became an important issue of political dispute between the major political parties. Due to the inadequacy of earlier methods for dealing with the problem, formulating legislation in this field which was different from the traditional policies proved to be necessary. However, because of differences in the policy making process in the three countries, the discussions of unemployment insurance scheme were carried out and influenced by different figures or groups, holding different ideologies, political attitudes and aims, and limited by policy legacies and power structures. As a result, they produced policies with distinct features. The elements which played important roles in different ways in these three countries should be stressed in comparative analysis, (although they all have been dealt with in my country-by-country accounts, and therefore some repetitions are inevitable).

Section One The Recognition of Unemployment as a Problem of Industrialisation and the Advantages of Unemployment Insurance as the Best Means of Dealing With the Problem

The modern welfare state was strongly influenced by the translation of political ideas into policy. The process through which opinions passed into action was very complex and was linked to the advance of knowledge about social problems at the time. 'Beneath the actual response of governments to social questions [lay] the murky question of how social and political philosophies, ...[provided] the setting for a re-examination of the role of government and [entered] into the actual transformation of democratic practices.' (Ashford, 1986, p.34, 44). In this case, the role of people who promoted changes in society and how they fitted into the politics of the day are crucial in understanding how welfare states developed.

Unemployment is an endemic problem in industrial society. For various reasons, increases in productivity, changes in technology and the failure of displaced workers to get suitable jobs, all bring about the dislocation of labour. For Beveridge, 'full employment' did not mean everyone working all the time. The enormous changes in the economy brought about a certain level of unemployment and some wage-earners experienced a period of unemployment before they could be re-employed (Haber and Murray, 1966, p.3). In concluding his comparison of British and Swedish social policies, Heclo argues that problem recognition is an essential part of how governments

change (Heclo, 1974). We should therefore find out the reasons for the different understanding of similar problems by different governments.

By the turn of the century, all the industrial nations began to discuss and seek to establish a welfare system, because of, first, the evidence of unemployment, the deterioration of human potential and other industrial problems and, secondly, the consequences of democracy in which the early labour organisation were recognised as political forces by even the most conservative politicians. Apart from the impact of socio-economic changes on the emergence of welfare states, questions such as how society was reacting to these changes and how these changes were linked to developing social policies, should be taken into account. The establishment of workable links between these two factors relied first of all on new ideas. As intensive searches for new social values had started in the late nineteenth century, the early social policy makers actually sought new ideas and new values they could bring to the management of the state. Changes in politics were related to the ways in which the policy makers perceived and formulated social policies. Each government was influenced by the perceptions of policy makers both in defining the problem and in devising workable policies.

Around 1900, policy changes and new ideas about the welfare state were influenced by a few key figures. Since the turn of the century, remedies for social problems based on traditional liberalism gradually became untenable. The situation was most acute in Britain. In the late nineteenth century, officials and academics did not have any clear idea of what unemployment meant (Harris, 1972, p.35). Unemployment was an entirely new problem for the democratic state. To devise policies to deal with the problem was technically and conceptually a more demanding event than were earlier security proposals for the poor (Ashford, 1986, pp.196-7). Self-reliance and self-improvement were major presumptions which prevented many people from taking a collective view of society. The values of sobriety, thrift, self-help and temperance dominated the early debates to a greater degree in Britain than elsewhere. The British political philosophers, Hobhouse, said that in a proper society, 'idleness would be regarded as a social pest, to be stamped out like crime.' (Quoted in Collini, 1979, p.139).

The British Conservative Party proved itself to be non-interventionist from the 1880s until the First World War. It was not attracted by the idea that progress relied upon positive government action. Instead, it upheld voluntary methods with regard to employers' liability in the 1890s, and introduction of the national insurance in 1911. It was reluctant to accept proposals from the Salisbury and Balfour governments to expand the role of government into the economic and social spheres and exerted attacks on left-

wing policies at the time. All these indicated that the political activity of the party was still dominated by the belief that the advance of civilisation was derived in large measure from 'individual face-to-face action' guided by Christian concepts. Thus, the Conservatives found themselves in a dilemma: on one hand, they recognised the necessity of adopting reform policies and tried to avoid 'revolution through the ballot box' urged by the New Liberalism and Labour, yet, on the other hand, they were afraid that to do so would offend the party's beliefs and injure its allied interests.

The new liberals in the Edwardian period were fully aware of social decline and started to re-examine the temporary solutions of Victorian Britain to social problems and to ask fundamental questions about the organisation of British politics and society. This was associated with the intellectual analysis of the causes of social distress and industrial and urban conditions in the twentieth century, which protested against the popular belief that economic hardship resulted from immoral habits and vicious tendencies. The advocates of insurance accepted the intellectuals' arguments that the recipients should not be blamed as need arose and that demoralisation from the provision of benefits should be controlled. The Liberals saw the need for social and economic policies and had clearer ideas than the Labour or Conservative Parties did about them. This left the way open to more opportunistic politicians like Lloyd George and Churchill. The former's decision to be People's Benefactor (see Chapter Three) symbolised the approach of the Liberals towards their collective arguments during the 1910 general elections.⁸⁴

Unemployment insurance in the 1911 Act focused on the most unstable and uncertain areas of employment, as it has been mentioned before.⁸⁵ Two principles should be taken into consideration in understanding the introduction of the British Unemployment Insurance in 1911. The first was the realisation of the need to reduce the effects of hardship caused by economic change, although the response to hardship was not to obstruct the process of the change. The principle was also accepted in the USA and its development resulted from the system of economic management adopted by the government. The second was the creation of rights and entitlements through paying

84. In a speech of 1909 at Limehouse, the would-be Chancellor of the Exchequer made the statement in the statist vein of the provision 'for the aged and deserving poor', and of 'raising money to provide against the evils and suffering that follow from unemployment' (The Times, 31 July 1909, p.9b, d).

85. The British policy-makers, Beveridge among them, concentrated on making the labour market itself work smoothly. The labour exchanges were regarded as a wholly nationalized scheme to link workers to jobs. Beveridge saw the exchanges as the keystone for a universal plan to test unemployment insurance claims, to subsidize union insurance, and to extend unemployment protection to the non-unionized workers. The Law was passed in 1909 with very little debate and no division of the House Beveridge criticized unemployment insurance in 1911 for its omission of prevention and treatment of government as a 'bottomless purse'. (Harris, 1972, pp.145-67).

insurance contributions. The importance of rights to benefits had been heightened by the operation of the Poor Law. The able-bodied poor got indoor relief at the expense of losing citizenship. The fierce resistance to the severe principles of the Poor Law exerted a powerful influence on the development of alternative systems of relief. With a contributory system, claimants could provide evidence of a history of industriousness (Harris, 1972; Bolderson and Mabbett, 1991, p.63). Despite its constraints in restrictions and scope, the 1911 scheme embraced the principle of insurance which enveloped both individualistic and collective values.

When unemployment became a more visible social problem in Sweden and the United States during the Great Depression, their solutions to the problem dealt with a different situation from that faced by Britain at the beginning of the century. The countries had become accustomed to big government, large social services budgets and the growth of social spending as a normal pattern of government operations (Ashford, 1986, pp.111-6).⁸⁶ This was the most crucial period for radical social change in which Social Democratic Party in Sweden and the Democratic Party in the United States gained power and the development in each case of the welfare state took place. In the midst of the unparalleled realignment of world power and search for an enduring peace during the interwar period, social policy attained a new significance.

In Sweden and the United States, unemployment insurance, as response to the problems of industrialisation, was not seen to be as important as it was in Britain. In Sweden, the politics of poverty never had much chance to achieve prominence because the nature of transformation from rural to industrial society provided less opportunity for severe poverty to occur (Bolderson and Mabbett, 1991, p.181).

The peculiarity of Sweden was related to the agreements over wage policy which preceded the development of more generous social benefits. Sweden inverted the usual historical cycle of unemployment through first constructing a concept of wage solidarity which could use wages for the purpose of income redistribution before major social programmes were launched. As early as in 1922, the LO pointed out its preference of 'wage solidarity' over competitive wage bargaining. The establishment of the voluntary

86. During this period, the major difficulties for the nationalization of social policy were overcome. First, the liberal refuge of private or charitable assistance proved inadequate. It became clear that even modest solutions to unemployment exceeded local resources and capabilities. The public suspicion about local governments as agency of social protection and social services was raised. Second, the private insurers had to acknowledge that many serious social problems exceeded the capacity of actuarially sound insurance. Third, professional groups eventually became part of national social security programmes. Fourth, the agricultural interests gained the protection of the state (Ashford, 1986, p.107).

UI scheme in Sweden was due to the preference of both the SAP and LO to wage solidarity. The LO excluded the scheme from its high priorities, because unemployment relief was used by the SAF to defend lower wages since World War I and the scheme would endanger the possibility of wage solidarity which came into existence in 1932. The union-based scheme also showed, on the one hand, the important role of the LO in supplying benefits for its members and its close relationship and similar ideology with the SAP, and, on the other hand, the SAP's political strategy of avoiding the Liberal's protest against the scheme. Expansive programmes for industrial workers were not appealing, SAP and the LO declared to make UI the major threshold in the construction of the modern welfare state, as the agrarian parties' support was essential for the SAP's parliamentary victory in the early 1930s.

In contrast with most European countries, the United States was optimistic about rationalising social distress.⁸⁷ Greater mechanisation, enormous advances in scientific management and full employment resulted in a rising Gross National Product (per capita GNP rose by 73 percent in the first thirty years of the century). All of these factors made the majority of Americans believe in a better life for the future, despite brief recessions and inflation (Axinn and Levin, 1975, p.116) (see Chapter Five). The concept of unemployment did not even exist when the early industrial recessions took place in the 1880s and the early 1900s (Ashford, 1986, p.314). The reform activities of the Progressive Era (1912-1924) were specially concerned with improvements in social conditions for the underdogs and with labour legislations. By creating opportunities for the less fortunate through the provision of government programmes and services, the individuals could assimilate into the mainstream of society and enhance their potential for a better life.

At the beginning of the depression in the United States, alleviation of the hardship caused by unemployment was largely left to public charity. But in most places, public relief was poorly organised and, as a result, the unemployed suffered a great deal. This indicated how unprepared the nation was for economic recession. Until the 1930s, when the inadequacy of public relief became apparent, unemployment insurance was not seriously considered in the USA (Haber and Murray, 1966, p.28). Case Studies of Unemployment, published by the Unemployment Committee of the National Federation of Settlements in 1931, and the finding of the Relief Census, conducted by the Federal

87. The development of the modern welfare state in the USA was derived from two 'short bursts' of popular pressure and social reform, the 1930's the New Deal and the 1960's the Great Society era. The former brought benefit mainly to the middle class, the farmers and the organised, predominantly white urban working class (Ginsburg, 1992, p.98).

Emergency Relief Administration in October 1933, showed that the inhuman experience of unemployment was connected to industrial rather than individual causes. They did not only promoted the eventual acceptance of federal participation in emergency relief measures, but also pointed to the necessity of permanent insurance against the risks associated with industrial society (Axinn and Levin, 1975, pp.162-3).

However, compared with Britain, unemployment insurance was not regarded as an important element in social security provision for the unemployed during the Depression. Americans attempted to achieve social security through economic controls rather than cash benefit provision (Bolderson and Mabbett, 1991, pp.69, 72). Stein (1976) argued that the British welfare state generally put heavier emphasis on distributive justice than on economic growth as the means toward a better society, while the American regarded economic growth as the basic way to reduce poverty (p.35). The choosing of merit-rating principle of the UI system in terms of contribution and earnings-related benefits reflected the American's emphasis on economic control for social security. The argument that the employer should be responsible for the provision of unemployment insurance benefit was made more strongly than in other areas of social security. Related to this argument was the freedom which was to be given to employers to organise their work-force. The exercise of this freedom was subject to the condition of creating employment for their employees (see earlier discussion in Part Two).

To summarise the section, I would like to argue that at the beginning of this century and during the Depression in the 1930's, associated with the publication of research about the degenerating living standards of the unemployed and public acknowledgment of unemployment as a serious problem of industrialisation, understanding about the causes of unemployment changed from an individual to a social problem. Accordingly, the appropriate measures of coping with the situation also changed -- from dependence on the punitive Poor Law and public charity to reliance on governmental programmes. When the inhumanity of the Poor Law became too self-evident and the financial vulnerability of charitable measures became apparent, state intervention into unemployment relief came to be regarded as necessary. The private sector failed to resist welfare state policies very effectively. However, compared with Britain, unemployment insurance in Sweden and the United States was a less prominent political issue. In Sweden, both the SAP and the LO avoided making unemployment insurance the main feature of the Swedish welfare state. They made fiscal policy and wage solidarity rather than unemployment insurance the primary aim of their policy for coping with the pressures caused by the Depression. In the United States, the decline of living standards and the increasing political turmoil caused by the Depression, persuaded the Democratic Party under President Roosevelt to

reassess traditional unemployment compensation policies. The political debate on unemployment insurance was associated with a different understanding of the causes of unemployment and a recognition of the inadequacy of local or private assistance programmes. However, the final form adopted for unemployment insurance showed the strong influence of conventional ideas: the stress was to be on the individual employers' responsibility for preventing unemployment rather than on the redistribution of income which was commonly accepted in Europe.

Section Two The Power Structure of the Three Countries and Its Effects on Their Unemployment Insurance Schemes

In accounting for the importance of political forces in the formulation and development of welfare state, some analysts have emphasised the correlations between the levels of welfare expenditure and the different political composition of governments in the West. Esping-Andersen (1990), for example, has pointed out that some significant political factors are connected with the performance of the benefits system. As discussed in Chapter Two, the nature of class, especially working class, mobilisation, the structure of class-political coalitions, the degree of 'left-wing power' in government and the historical legacy of regime institutionalisation, were all particularly important.

Yet to emphasise the political importance of the working class or of left-wing parties should not lead to the conclusion that the labour movement exhibited the same strength in different countries, or that the working class mobilisation and any labour or left-wing parties are alone capable of structuring a welfare state, or that the labour movements exerted their effects on the development of social policy solely through their direct demands. (See earlier discussion in Part Two). Working-class organisations were historically structured in divergent ways and they held different aims, ideologies and political capacities. These differences decisively affected the articulation of political demands, the extent of class cohesion and the scope for cross-party action. In the following part, I discuss the relationship between the labour movement and the establishment of unemployment insurance schemes in the three countries.

1906-1911 was a period of reform in Britain in which a rapid development towards the welfare state took place. The initiatives of the New Liberalism were accompanied with a development of the labour movement, in which trade union membership was growing continuously. The influence of socialism as a doctrine was increasing amongst unionists and industrial unrest among organised Labour was rising sharply. At the 1906 election which was won by the Liberal Party with a big margin, 29 elected candidates were

supported by the Labour Party. The Labour Party increased its strength in the House of Commons to forty MPs by 1910 and began to issue some radical manifestos. All these factors produced a warning for the established political parties and, to a certain extent, 'Liberal social reform was an attempt to counter the electoral threat from Labour. The rival parties of the Left fought to establish the orientations of politics.' (Fforde, 1990, p.106). Yet, the Liberal reformers in Britain in the early twentieth century were not particularly alarmed over the appearance of the Labour Party.

According to Ashford (1986), the new Labour Party could not been influential in parliamentary politics in West Minster because of the institutional limits on minor parties in Britain. There are two essential factors which determined the labour movement's ability to develop its political aims to increase its role in social policy making. First, when its policy concerns were developed, the movement had to be relatively free from direct political and industrial attacks in order to not be weakened; second, it had to be able to anticipate possible changes to society and the economy and to adjust itself to the changing circumstances. In this context, the British unions were under a continuous threat between 1910 and 1945. On the one hand, the political elites of Edwardian Britain had almost no knowledge of, and very little sympathy with, unions, both the policy-makers and the administrative elite showed little interest in having direct arrangement with either the new industrial elites or with union leaders when social questions arose. Few ministers, except Churchill who consulted TUC leaders on Labour Exchanges, wanted direct contact with union officials. On the other hand, the rising leaders of the Labour Party were either not much better prepared, or failed to display their ability, to deal with a transition of their surroundings (ibid., pp.213, 214, 215).

The apparent class divisions of the country were not easily mobilised to affect the emergence of the welfare state. Organised labour did not have a decisive voice in the social legislation of 1911. Instead, like other governmental measures at that time, it was promoted by Lloyd George and Winston Churchill (see Part Two). They did so because of their political concerns with the prevailing influence of socialism among the working classes, the health of the people, the hostile attitude of society to the Poor Law and the increase of their own popularity (Fraser, 1979, p.306). Compared with their influence, the Labour Party supported but did not introduce the scheme in Parliament, and the impact of the organised labour was at most indirect (ibid.) The transition from liberal to welfare state was therefore much more the product of the contest between 'conventional liberal and old conservative' political forces, neither of which, however, was able to recognise the long-term institutional consequences of their actions (Ashford, 1986, pp.13,175).

By contrast, the Swedes utilised labour market measures rather than benefits to modify the labour market and assist people who were vulnerable to unemployment. As far as the political indicators mentioned above are concerned, the Swedish welfare states gained support from strong working class mobilisation in government and, subsequently, the Social Democratic Party successfully formed class coalitions with other groups such as farmers.⁸⁸

Sweden, unlike the United States, never experienced political pluralism. A strong link between the Social Democratic Party (SAP) and the union confederation (LO) was developed in the first decades of the century. Unlike most countries, this alliance was formed in the process of obtaining universal suffrage which was achieved in 1918. Although the failure of the 1909 general strike forced these two organisations (SAP and LO) to separate from one another, and their ability to combine each other's policy objectives in the interwar period was not as easy as was displayed during the development of the Swedish welfare state in the 1950s, the political links were much closer than those found in Britain at the turn of the century. In 1912, for example, 80 percent of SAP members were also LO members (Johnston, 1962, pp.26-31).

While leaders of the left in most countries, such as the organised labour in the United States, had to fight for recognition, the labour movement in Sweden became integral component of democratic development well before the welfare state emerged. Once democracy was established, the working class could focus on developing workable public policies and set up its own research and policy-making capacities long before its British counterpart. Due to the existence of a close political and organisational relationship between them, the trade unions and the Social Democratic Party were able to agree on a set of policies that would result in full employment. Thus, compared with Britain and the United States, the structure of labour movement in Sweden was much more functional.

In Sweden, although unions were relatively weak, their leaders were able to anticipate the advantage of social insurance for the workers and, to some extent, to participate in the process of policy formulation. In contrast, the British workers' own organisations were

88. There never had the political complexity of 'country versus city' as common as in British politics which could therefore become an obstacle for developing a more advanced form of the welfare state (Ashford, 1986). In the United States, the Democratic Party established a similar coalition in the New Deal, 'but with the important difference that the labour-intensive South blocked a truly universalistic social security system and opposed further welfare-state developments.' (Esping-Andersen, 1990, pp.30-1).

very powerful because they were concerned with protecting their own independent rights, feared state competition and resisted contributory social insurance (favouring instead uniform benefits paid from general revenues). They acted as the major obstacle rather than positive force in policy development in the first forty years of this century. They were isolated from Whitehall and West Minster and had few opportunities to acquire a role in the emerging British welfare state. As a result, Britain produced 'one false start (non-contributory pensions) and an ad hoc mixture of two other insurance programs, one run by the state for particular categories of workers and one heavily influenced by the private-sector societies' (Heidenheimer *et al.*, 1983, pp.216-223).

The collaboration between organised labour, capitalists and the state, on which the Social Democratic hegemony had been based since the 1930s during its construction of the very unique Swedish welfare state, did not exist in other welfare states (Ginsburg, 1992, p.64). Partly because of the concentration of ownership of Swedish business but also because of a highly-organised private sector required by late industrialisation, the Swedish Employers' Association (SAF) was a nationally-organised body and able to conduct well coordinated lockouts to humble the LO. There was a violent confrontation with the LO and the SAF in the 1920's which had negative effects on the country. After its defeat in the 1928 election, the SAP was forced to abandon Communist support in order to establish the political grounds for peaceful industrial relationship, as a good relationship between the LO and the SAF was crucial for the LO's wage policy. And the Social Democrats' adoption of an unemployment insurance scheme could be regarded as a strategic measure to avoid the employers' and liberals' resistance to their wage policy.

Because of the close linkage between the trade union movement, the Social Democratic Party and members of parliament, Sweden could adopt the active labour market policy, formulated by the trade union economists, Gösta Rehn and Rudolf Meidner, which united the interests of labour, capital and state in the economic modernization in Sweden. The active labour market policy is important for understanding the 'Swedish model' (Olofsson, unpublished book). The Swedes used this policy to complement the 'solidaristic wage policy' of the trade union movement, from which people got the same payment for the same type of jobs.

As far as the second case is concerned, from 1932 till 1976, the Liberal Party in Sweden never managed to develop a social base and become an alternative to the Social Democrats (Dangerfield, 1965; Verney, 1972, pp. 42-59). That was because, first, Sweden was still a primarily agrarian country in the early 1930's, and, unlike the Social Democrats, the Liberals never developed their strong roots in the rural areas; secondly,

an alliance of the Social Democrats with the agrarian parties avoided the development of an influential rural class apart from social democracy and in the 1930s agrarian interests appeared best served by this alignment (Esping-Andersen, 1984). The Swedish liberal provision of some basic social benefits, which were prior to the rise of the Social Democrats, was easily overshadowed by the political coalition of industrial and agrarian interests assembled by the Social Democratic Party and by the aims of the labour movement and the Party. Nations like Sweden, where industrialisation occurred at an earlier stage, faced a crucial problem of dealing with the rural classes. Since it usually constituted the largest single group in the electorate, the Social Democrats had to form a coalition with the farmers if they wanted to constitute a political majority. Because of the weaker labour movement and the more autonomous agricultural sector, the Social Democrats could not rely on the power of the left, but needed a political alliance with the farmers to fashion a compromise between wages and welfare.

Among the so-called 'liberal' welfare states, there was, as Esping-Andersen (1990) argued, a lack of working class mobilisation for the left. In terms of power, the American working class was divided by racism, religion and migration in the pluralist setting of American politics and by employers' opposition to the unionisation of production workers. This lasted until the 1930's and the Great Depression when political awareness and the growing class consciousness of the workers were aroused by the operation of the American capitalist system, and the right to organise was established by the National Labor Relations Act (Fraser, 1979, pp.303, 308). Yet, the labour movement had never been able to get the working class united (Ginsburg, 1992, p.100) and, due to political and presidential systems, it had proved impossible to set up a Labour Party in the United States. From the turn of the century until the depression of the 1930s, there was a concentration of wealth and income. Apart from the increasing gap in the living standards between the working class, the middle class and those on the top level, there was a notable difference of payments between the skilled and unskilled within the working class. Thus, the central state did not need to develop the capacity to confront and respond to the demands of a politically and nationally unified working class.

The early response of the country to the problem of unemployment was influenced by internal trade interests, the industrial structure and the labour movement. According to Rimlinger (1971), the success of the 'struggle for the establishment of modern social rights' relied strongly on 'the full support of organised labor' (p.8). However, social reform failed to gain support from the American Federation of Labor (AFL) -- representing craftsmen organisations -- as the AFL preferred a voluntaristic policy agreed by employers (they accepted occupational welfare schemes as 'welfare capitalism') and

objected to social insurance for giving effect to governmental requirements (Fraser, 1979, pp.307-8).

The American labour movement was not involved in the establishment of the 1935 Act. Although the labour movement was a keen promoter of New Deal social insurance schemes⁸⁹ and obviously benefited from the Bill, it did not result from labour unrest nor was it a part of aim of reconstructing the labour market. Those responsible for the Bill wanted to sustain the American myth of the individual's independence from the government and to reduce the significance of the government intervention. During the hearings on the Bill, the Labor Committee was not selected by Roosevelt out of fear that more radical Congressmen might extend the scope of the Bill. The intention of excluding the Labor Department from the Committee on Economic Security was to include the business community. The law was a typical product of 'American pluralist politics, working in conventional ways among the well known pitfalls of party coalitions and Congressional politics.' (Ashford, 1986, p.238).

In the case of the development of unemployment insurance schemes in the three countries, it would be wrong to conclude that the workers or the unemployed, who were supposed to be the beneficiaries of the system, exerted a direct and decisive influence on the final outcome of the policy making process. The policy makers' concerns with the reactions of the middle-class or the farmers or the liberals (in the Swedish case) to their proposals, their pragmatic stance in terms of choosing certain features for their UI schemes in order to gain the political support from different parties and/or groups, the different attitudes among the labour movement to social insurance and the different power structures of the three countries, all explained a great deal.

What the Liberal experience in Britain showed was that, unlike the other countries, the welfare state was introduced at the beginning of the 20th century without popular support or political coherence. In many respects, it was a product of political opportunity (Ashford, 1986, p.77). The creation of the liberal welfare state did not originate from a critical election or from organised pressure outside government, rather, the conversion of ideas into proposals for the welfare state took place within the administrative system. The British administration enjoyed a virtual monopoly in planning the emerging welfare state at the turn of the century, and discussions of the proposals and problems were held among small circles of ambitious reformers and their political friends who were able to simplify social and other policy problems in order to find political solutions and to amend

89. The united labour gave its support to the Democrats at the 1932 election which the realignment of American party politics took place (Fraser, 1979, p.308)

the weakness of experimental legislation. The lack of support from the early Labour Party and unions' was surely a major cause for Lloyd George and Churchill devising their own strategies for launching the British welfare state.⁹⁰

According to Baldwin (1990), the incidence of risk and the capacity for self-reliance were two variables which confined the appeal of any particular group at a given time to the redistribution programmes. While the risk-prone communities sought for the means of reallocating the effects of uncertainty, the better off might insist on their independence, and the political conflict between these groups as risk categories over the formulation of social insurance had significantly affected the nature of welfare policy (p.17). In Britain, the Friendly Societies provided services for middle and low income groups, and the solidarity of members was reinforced by the fraternal character of the societies. Rooted in working class self-reliance, they were opposed to the development of social insurance, and this helped to prevent the British labour movement from playing a more active role in this process (Gilbert, 1966). In designing the 1911 Insurance Act, the government was aware that although they were economically weak, the Friendly Societies had to be taken seriously as their opposition could kill its proposals. Lloyd George consistently preferred the incorporation of Friendly Societies and later other organisations as collecting agents of contributions in order to reduce the resistance to compulsory contributions. George and Wilding (1976) argued that some constituent features contained in the National Insurance Act, 1911, e.g. the use of the insurance principle, the level of benefits, originated from the conflicts and bargains between the various pressure groups involved, as the working class was 'neither so strong nor so proficient in the art of exerting pressure as the other groups involved, ... the whole confrontation was taking place within an ideological climate that favoured the upper classes' (p.19).⁹¹

In the United States, social welfare was regarded as an arena in which represented the reform activities of the Progressive Era. Social workers, in response to the reform

90. The 1911 Act was almost entirely the product of a small band of Treasury officials, like Sir Robert Bradbury, head of the Inland Revenue Service, Sir Robert Chalmers, a high Treasury official, Masterman, Financial Secretary of the Treasury (Bolderson & Mabbett, 1991, pp.179-80). Part Two of the British 1911 Act was passed with little debate, on the contrary, as Beveridge noted, 'no one outside the Board of Trade knew enough to criticize it in detail.' (quoted in Gilbert, *The Evolution of national Insurance*, 1966, pp.283-4).

91. In Britain, the real political fight over developing social insurance arose from the small, voluntary or mutual insurance companies. The British and the American large private insurance companies had great influence in designing social insurance. By 1908, 1059 unions in Britain, with nearly 2.5 million members, had made provisions against unemployment (Ogus, 1982, p.186). However, compared with national insurance against unemployment, they had a number of disadvantages: limited coverage of only the elite of the working classes, ignorance of the responsibilities of employers and encouragement of only local and haphazard labour mobility (Harris, 1972; Fulbrook, 1978).

movement, established a leading role in promoting social legislation and expressing society's will for social change. Their demands for compensation for industrial accidents and diseases, for the provision of compulsory education, for the introduction of social security against unemployment, retirement, etc., reflected their understanding of the environment and the problems caused by it (Axinn and Levin, 1975, p.126). The American Association for Labor Legislation (AALL) was a single organisation which focused their concerns on social insurance. It was directed by labour historians and labour experts, like R. Commons and his student John B. Andrews. Andrews' organisation in Wisconsin provided most of the experts for the Social Security Act of 1935. In fact, a skillful team of progressive social insurance experts from Wisconsin formed the basis of the American Social Security Administration.

The role played by the employers in the United States was also noticeable. Big business established its influential position in the society by the turn of the century (see Chapter Five). In the 1920s, welfare provision by the modern American corporations was popular and big business exerted considerable influence over the American economic policy. The government sought to limit its power but sometimes encouraged it to provide economic security for its workers (Bolderson and Mabbett, 1991, p.60). By providing social protection for their workers, employers could increase loyalty and stability in the work-force, weaken the influence of the organised labour and fend off demands for state-provided protection. The introduction of Workers' Compensation in most states by 1920 was a good example which reflected cross-class support for employer-based welfare. Corporate welfare was influential in making decisions about the structure of American social security, in particular, in the area of unemployment insurance. The adoption of the merit-rating principle in the provision of unemployment insurance benefits was related to the guarantee of freedom for employers in their business management and, accordingly, to their responsibilities for job creation and unemployment compensation to their employees (ibid., p.69).

In the case of official and popular views toward social assistance and the strong feelings of self-reliance among trade unionists, there were some apparent similarities between the United States and Britain. However, due to political and constitutional differences between these two countries, it was difficult to convert these ideas into national politics in the United States (Ashford, 1986, p.61). Ginsburg (1992) has argued that the most distinctive features of the American welfare system⁹² originated from the particular

92. They were the immense variety in policies and practice from one state to another, and the absence of a coherent national social policy, a clear separation between social insurance for those regarded as

characteristics of the state apparatus, the class structure and corporate capital. As far as the first was concerned, it referred to the lack of a powerful central state apparatus. The anti-federalism, the decentralisation of power, the absence of a powerful domestic civil service, and the separation of powers at all levels of government between executive, legislative and judiciary, made the American state bureaucracy different from its European counterparts (Amenta and Skocpol, 1986). British local government, for example, had little political incentive to take the initiative as the welfare state emerged. This encouraged the administration to design policies which avoided effective local political control, and national government could ignore local preferences. In the United States, local government imposed very different effects on the social security and welfare structures from those of their British counterparts.

The 1935 Social Security Act made specific provisions to permit states to influence social policies. The Act did not represent a fundamental redirection of the American political process though it was a major turning point in American social legislation. It was the only New Deal social reform which was entirely administered by the federal government providing uniform benefits across the states. However, the federal uniformity, as Orloff (1988) described, induced a tension between national standards and co-ordination at federal level and state autonomy and diversity. This was particularly in the unemployment insurance system. The merit-rating principle in unemployment insurance allowed for the payment of the different contributions by different employers. Yet, because of interstate competition, uniformity in contribution rates was required. Owing to the differences between the polity of the United States and those of Britain and Sweden, the 1935 Act adopted a complicated federal-state cooperation system in its unemployment benefit provision: the amount of a uniform national pay-roll tax by employers could be reduced by the employers' payment to a state insurance scheme. The states were granted autonomy to decide rules governing eligibility, duration and amounts of benefit and employers' contributions, yet they had to meet certain requirements. The states also received grants from the federal government for administering the scheme (see Part Two).

To summarise this section, it would appear that we can not attribute the different welfare outcomes to one single powerful force, i.e. the role of the labour movement, rather we should also take some other factors like the nature of class mobilisation, the structure of the class political alliance into account. It is however incorrect to argue that labour movements and labour parties in these three types were equally powerful and therefore

deserving, and means-tested programmes for the poor, and the essential part played by private charitable and commercial interests within the welfare state (Ginsburg, 1992, p.100).

exerted more or less similar political influences on the emergence of welfare systems. As organised forces, they were accepted by society, or more precisely, by the ruling class, more easily in one country than the others. This was due to different historical legacies and power structures.

As far as the introduction of unemployment insurance schemes in the three chosen countries is concerned, the Swedish labour movement, due to its special relationship with the Social Democratic Party, played a more direct and influential role than its British and American counterparts. In Britain, the power and influence of small groups within the administrative elite was remarkable. In the United States, although the President and some administrators played crucial roles in the process of decision making, the failure of the Ohio group to obtain support, especially, from organised labour, for its pro-redistribution policy in this field reflected the decision makers' concern with the interests of the business. So, in these two cases, which were lack of powerful labour movement, the impact of other groups on unemployment insurance and welfare policy in general needs to be given a appropriate consideration.

Section Three The Historical Heritage, Ideology and the Characteristics of the Unemployment Insurance Scheme

Ginsburg (1992) argued that the British welfare consensus in the post-war period could be described as 'liberal collectivism'. It was 'liberal' because its architects, Keynes and Beveridge, were liberally-oriented; it was 'collectivism' as there was a development of 'direct public provision of welfare benefits and services, the commitment to universal access to those benefits and services, and the national uniformity of the system'. Yet in reality the precise extent of the state obligations and the welfare rights of citizens were subject to political pragmatism and social struggle (p.141).

Actually, the liberal collectivism of the British welfare state in this period was already evident at the turn of the century. Beveridge himself was a participant of the new liberalism in the Edwardian era -- the time when social insurance was introduced in Germany and the elements of the Bismarkian social policy were accepted as a modification of free-market liberalism. In dealing with social problems, like unemployment, in an international context in the early years of this century, the British decision makers held to their traditional individualistic beliefs but adopted some collectivist thinking in order to win a privileged position over their political opponents and more electoral support at home, and, internationally, to preserve the national powerful position of the United Kingdom as one of the leading societies in the world.

Since the 1890s and, in particular, after the Boer War, British leaders shared common anxieties about British politics. The new generation of Edwardian policy makers was in close contact with the new social philosophers, and the 'new liberalism' which became the hallmark of Edwardian thinking about society and politics was influenced by Green (1836-82), English idealist philosopher, and other thinkers of that age. It provoked political concerns within Whitehall and West Minster but did not question British political traditions. British concepts of state and society and the new relationship between the individual and the state were relatively untouched during the early stages of Edwardian social legislation. This was largely concerned with 'morality' and feared that social reform which involved state aid to the poor would undermine forever the self-reliance of a class and lead to the moral destruction of the next generation.

The thinking of the Edwardian reformers in the period between 1886 and 1914 was thus increasingly divided, along thinking inside the main political parties, into two polarities: on one side were the left-oriented reformers who were supporting the emerging collectivism, and on the other the right-oriented thinkers who were committed to the individualistic tradition. Compared with the left, the right was more influential and pervasive. Its thinking was based on two concepts: freedom from the state intervention and individual duty. Whereas the right looked to moral values as solutions to social problems, the left advocated a change of the system. They believed that society was composed of socially and economically conflicting groups and that the increased governmental action was necessary for individual fulfillment, in particular, to benefit of the less advantaged.

The emergence of socialism at the end of the 19th century constituted a fierce challenge to the fundamental tenets of the conservatism; it threatened what the conservatives valued, but could not initially find a place in the political and constitutional structure of Britain. At the turn of the 20th century, the British left had no political motive to adopt militant socialism, nor were the leaders influenced by the intense socialist debate. In their overall assessment of socialism, the Tories argued that the socialist idea was not adaptable to British traditions, as in a socialist society, the state as the universal employer would lead to inefficiency and poverty and to 'the disruption of all private property and profit'.⁹³ British socialists had little influence over social policy in Edwardian Britain. As Freedman

93. NUCAS, The Campaign Guide (Edinburgh, 1909, p.335). For Ashford, in spite of the connection between the transforming process of the liberal state to welfare state and the intensive feeling aroused by the rise of socialism, the Liberals' motive was to harmonize the basic doctrine of liberalism with an elaborate and growing set of social policies (Ashford, 1986, p.10).

(1978) writes, socialism emerged as 'one of the most elusive, vague, and diverse concepts' in British social and political thought (p.15).

It is therefore incorrect to conclude that the development of welfare states in Britain was the fulfillment of socialist ideology. Unlike Sweden, the British welfare state has never been dominated by social democratic ideology. The elitist character of British policy making was, from a policy-making perspective, one reason why the British welfare state never became a radical departure from British political traditions. The new leaders like Smith, Morant and Beveridge were also skillful civil servants, who had never been excluded from power, and their understanding of the poor never needed to be translated into radical political action. Collini (1979) argued that the new liberal thinker 'wants to have his cake of socialism and to eat it in accordance with liberal principles.' (p.134).

Laissez-faire liberal assumptions were manifested in new social legislation, in the design and extension of social benefits and in the persistence of the Poor Laws. The individualistic assumptions prevailed over new liberalism in the British debate. Though there had been an accumulation of social legislation throughout Victorian Britain and the Tories responded pragmatically to the pressure for change in unemployment policy which emanated from the Liberal or Labour parties in the early 1900s, the commitment to massive state intervention came rather suddenly, since as late as 1906, the Liberals had no formed views about social policy.

According to Ashford (1986), the Edwardian intellectual dispute provided the context for launching the British welfare state. Yet there was only a vague connection between these ideas and the policies that emerged in 1911; the major actors among the Liberals, such as Lloyd George, were only caught up with their experience of grating poverty (pp.76-7). However, behind their social reformist ideas also lay the voluminous researches by social scientists in which social problems were described in great detail and collectivist solutions were mooted. The early investigators of social issues, such as Mayhew, Booth and Rowntree, believed in the idea that the advance of society could be realised through alternative socio-economic structures by the government. They argued that empirical evidence of poverty should be translated into public policies without delay, and presumed that government and Parliament were capable of finding rational solutions to social problems.

While the establishment of the welfare state in Britain at the beginning of the 20th century involved a great deal of moral debates and therefore had a stronger philosophical foundation than elsewhere, the major intellectual effort for advocating expanded social

insurance and the new proposals for social legislation in both the United States and Sweden in the 1930's were more linked to political realities than to new or changing values. This may be related to the fact that, during the period when these countries were involved in discussions of governmental measures for dealing with industrial problems, the backgrounds against which their social insurance systems were to be established changed. After the political and administrative moves of the 1920s and the 1930s toward a fully developed welfare state, political forces in Sweden and the United States gradually manoeuvred to bring about the massive policy changes of the 1930s (Ashford, 1986, p.109).

As mentioned before, there were differences between Sweden and the United States in terms of their political power structures. As far as Sweden is concerned, it is important to recognise that the possibility of more ambitious approaches to welfare policies was dependent upon its unique historical and political circumstances. In contrast to the United States, where a pluralist political system prevailed, the social reforms promoted by the Social Democratic Party in Sweden in the 1930's were designed by a small group of the socialist thinkers.

The Social Democrats' policies then were influenced by three eminent ideological factors. First was the famous phrase, 'the People's Home', created by the party leader Albin Hansson in 1928, with the idea of fostering 'equality, concern, cooperation and helpfulness' in the welfare society of the future (see Part Two). References to the people rather than the working class reflected the party's strategy of forming a coalition with the Farmer's Party. Second was the related idea of 'solidarity', to restrain competition and develop economic democracy, political accountability and social equality. Ernst Wigforss saw 'socialism as the logical extension of liberalism rather than its antithesis.' (Tilton, 1977, pp.505-20). Third were counter-cyclical economic policies of Keynes, using public employment and labour market policies to limit unemployment. The Social Democratic Party leaders were able to take advantage of the early development of Keynesian concepts by Wicksell, who was regarded as the founder of demand-based economics in Sweden. Both sides of industry recognised the interdependence of increased productivity and redistribution. The influence of social democratic ideas in Sweden, championed by Bertil Ohlin and the Stockholm school, was powerful and led the Social Democratic Party towards a new vision of social harmony. More importantly, the severe depression of industry and agriculture in the 1920's made the uniting of workers and farmers behind the SAP in the 1930's possible.

The leading figures in the Party abandoned orthodox Marxist thinking after the party's defeat in 1928 and were anxious to construct an entirely new framework for the welfare state in the context of the severe political and economic vulnerability of the 1930's. Political uncertainty was more important in deciding the terms of the 1934 Act than orthodox socialist enthusiasm. Small contributions by employers was one of the government's strategies of avoiding the protests against the unemployment insurance proposal from the Liberals. This points to the influence of populism, which aimed to achieve a popular authority and to secure the electorate's support in order to build up a coalition between social groups and interests which were hostile to socialism. 'Socialist ideology and rhetoric remain the rationale for the party's existence and a bench-mark for ideological renewal, but populist pragmatism and political realism shape much of the party's policies in government.' (Ginsburg, 1992, p.31). It was not until the socialists' power base became firmer in the late 1930s and the LO achieved firmer control over the labour movement in the early 1940s that the studies which led to the development of an entirely new system, which would later be called 'the Swedish Model', took place (see Part Two). The gradual development of social welfare in Sweden reflected a political tradition of compromise and coalition in an ethnically homogeneous society.

Compared with Sweden, the United States presented an opposite approach in its effort to redefine the role of the state in society. In the United States, due to its immense social and economic diversity, it was virtually impossible to formulate an embracing ideology of social change. The idea of the welfare state was much less securely established than in Western Europe, and the proposals for social reform were relatively isolated from political controversy. Although a new approach to thinking in this field emerged in the United States early in the present century, and Americans had become as aware of poverty and social inequality by 1914 as most of their European counterparts, social security did not challenge the political pluralism of the country, rather it left the liberal political foundations essentially untouched. But without the institutional capacity, the Americans could not translate social concern into legislation. They kept their faith in *laissez faire* and self-help, favoured the private economy over the public and valued individual choice over collective choices. Thus, they were reluctant to accept the goal of redistributing resources from the 'haves' to the 'have-nots', as for them, social welfare programmes were not suited to the tradition of the country.

Since the early twentieth century, along with economic development, there was also a change concerning values. A society which was based on a model of competition between small business firms and individual achievement met a challenge from the emerging corporations or trusts engaged in monopolistic market control. In the corporate

society, collective interdependence was recognised as a new social doctrine and the virtue of laissez-faire began to be questioned. In terms of social reform, while the prominent social theorists of the nineteenth century assumed individual improvement as its basis, their successors in the twentieth century argued for a reform of institutions to enact legal regulations to deal with social and political problems (Axinn and Levin, 1975, pp.121-2). Corporate capital which was dominant in the economy started to interfere with many aspects of welfare. As a result, social engineering became a dominant theme in the country and, as was mentioned in Chapter Five, led to big business promoting the idea of a agreeable relationship between capital and labour in the corporate welfare programmes in the United States.

Until the depression of the 1930s, the United States went through a period in which many American achieved individual prosperity as it has been discussed earlier. High levels of employment and wage increases made the Americans ignore the problems of those less fortunate. The doctrine of laissez-faire was proclaimed by those who believed that what was good for business was good for the nation. The solution to poverty was closely related to the effort to encourage business rather than corporate regulation, social insurance or public welfare. People believed that the very possibility of the imminent disappearance of poverty was associated with economic growth and affluence in the 1920s. They regarded prosperity as an important achievement of many of the goals of the reform movement and thus decreased the pressure for further social legislation. Character reform of people in need rather than social reform renewed its prominence among the advocates of reform who expressed suspicion of public relief and of relief recipients. American society preserved its liberal character by avoiding any suggestion that social security was in fact related to wage and labour problems (Harpham, 1986).

When the social insurance system was adopted at a time of radical political change and innovation in America, it was not a centre piece of the New Deal. Also because of the influence of the model of corporate welfare of the 1920s, the design of the American social insurance system was different from Britain. The impact of the major financial and industrial corporations on the construction of the American welfare state was quite unlike anything in Western Europe (Bolderson and Mabbett, 1991, pp.55-6). The 'liberalism' of the industrial and financial corporations exerted a powerful influence during the period when America was building up its modern welfare state. In a combination with 'voluntarism', 'liberalism' functioned as the basis of a certain social policy consensus after the 1930s onwards (Ginsburg, 1992, p.100).⁹⁴ In addition, the development of the

94. While the former referred mainly to two principles, (first, the belief that individual families, with the support of private agencies, should almost entirely control their own welfare; second, that public welfare

British unemployment insurance scheme in the 1920-30s and the problems regarding the financing of the scheme caused by the policy changes were also used by the supporters of Wisconsin to argue that their approach was a better choice for unemployment insurance in the United States (see earlier discussion in Part Two and Chapter Five).

Britain, in contrast to the USA, made more efforts to extend the system of relief than to provide programmes of public works. The nature of the original national insurance scheme, which was the product of the political economy of *laissez-faire* and the historical legacy of the Poor Law, was transformed following World War I and the depression of 1921. During the 1920s and 1930s, a dozen or more unemployment laws were passed. This resulted from the politicians' suspicion of the government's ability to reduce unemployment and their inconsistency to the 'no relief without work' principle. The failure of Britain to adopt radical economic policies was due to the lesser influence of the depression in the country than in the United States. When unemployment became severe, British policies focused on this single issue. They devoted more legislative time to the relief of unemployment than to its reduction (Tomlinson, 1990, p.119; Bolderson and Mabbett, 1991, pp.66-7), ensuring provision of assistance to the increasing numbers who were excluded from unemployment insurance. The liberalisation of the unemployment insurance programme undermined its solvency which was built up under the favourable economic conditions which existed before 1920. After 1920, the receipts and expenditures became seriously unbalanced and unemployment insurance came under a considerable financial pressure and had become quite inadequate by 1931.

The summarise to this section, I would like to suggest that the establishment of unemployment insurance schemes in the three countries revealed the impact of ideology on the different outcomes of the same programme, and showed that there was no necessary link between socialism and unemployment insurance programmes. However, while we recognise the importance of ideology in the development of social policy, we should also be aware that its role may be more precisely assessed in the context of the political power structure and the institutional constraints in the countries under investigation.

intervention should help individuals and their families to reconstruct self-sufficiency rather than rely on public support), the latter, which had a particular meaning in the US, implied the necessity of positive intervention in order to meet social needs, of pressures from different interest groups, the poor, the middle class, the labour movement and the business corporations and so on, to introduce social policies. The former had 'been tempered and blunted throughout US history' by latter (Ginsburg, 1992, p.100).

Decision makers made policy choices according to their beliefs, but, due to the complexity of decision making process, they also had to adjust their beliefs to the prevailing circumstances in order to get approval for their proposals from other groups. Thus, it became necessary for them to make pragmatic changes to their basic ideological positions on governmental intervention. Also because of the long term effects of historical legacies, politicians were constrained by previous legislations. As Ashford(1986) has argued, in their efforts to launch the welfare state between 1906-1911, the British Liberals, like their political rivals, the Conservatives, were not well prepared to choose between policy options. Social policy was an area in which politicians were unable to predict many of the political consequences of their actions and made many decisions from the short-term perspective of normal democratic politics (Ashford, 1986, pp.13, 217, 312). ⁹⁵ Apart from these considerations which influenced the outcomes of the unemployment insurance scheme in the three countries, we also need to take the experience of the scheme in Britain, which was a precedent in this field, into account. The development and changes the British made to their initial scheme, during the time when the issue was discussed in the other two countries, reinforced the decision makers' belief, especially in America, that they should introduce an unemployment insurance scheme which would be different from the British one.

Part Four Summary and Conclusion

In Chapter Two, I presented the different approaches to comparative studies in social policy and outlined some basic factors which should be given special attention in analyzing the process of decision-making in unemployment insurance. Although these approaches have contributed some valuable insights into the establishment and development of the welfare state, they all have been criticised for shortcomings in their explanations. In spite of the merits and shortcomings of the approaches, it would be wrong to conclude that they are totally independent to each other or that they do not have any theoretical value. Rather it is important to try to connect them to the different experiences of the different welfare states. We may find that, while one approach is suitable to one policy in one country at a certain period, it is less useful than other

95. The 1911 Act's limitation to those trades which had seasonal fluctuations and which were neither the most stable nor the most prone to chronic unemployment, reflected the framers' consideration about the actuarial uncertainties in insuring against unemployment and the possible injustices to some employers of not risk-rating. The flat-rate contributions and benefits rather than earnings-related design avoided the opposition of the Friendly Societies and other advocates of private provision and their adoption enabled the more skilled workmen to top up their basic state benefits by voluntary insurance, and aimed at preventing want amongst the poorest as replacements for the Poor Law (Gilbert, 1966; Harris, 1972; Hennock, 1987; Bolderson and Mabbett, 1991).

approaches to explain some other policy in other countries at a different period. Thus it is important to apply these various approaches to the same policy area in different countries in order to discover which explanations are more appropriate for interpreting what has happened in this field. While some factors have clearly played important roles in the decision making process, their actual importance in the different countries can be very different.

In order to make a comparative study of decision making in unemployment insurance schemes in Britain, Sweden and the United States, I have tried to choose certain angles as dimensions for making comparison. Based on my discussions in Chapter Two, I focus on two elements as starting points; one is the political power structure and the other is the ideology of the participants in the policy making process. The choice of these two elements is partly for practical reasons. Since it is impossible to include all the basic influences on decision making in a doctoral thesis, economic factors have been given less attention than political and ideological ones. In addition, in terms of political factors mentioned in the discussions of the different approaches, I have not adhered to any view which regards either the working class movement or powerful individuals or institutions as being decisive in the process. Instead, I have used a general term, the political power structure, in my analysis, in order to take all the different political actors into account and examine differences among the three chosen countries in this study. In relation to this, the different ideologies of the various participants in decision making process and their impacts on the outcomes have been given particular attention.

Referring to the above and the questions which are listed in my framework chapter, I have constructed my comparative analysis from three aspects in order to discover the reasons for the similarities and the differences of unemployment insurance policy in the three countries. First, I have studied the historical context of the three countries in which unemployment was recognized as a social problem. The acceptance of unemployment as an economic and political issue was basically connected with the general economic situation of the country. Yet, the answers to questions such as when, how and by whom the problem entered into debate went beyond economic consideration. The influence of different groups in relation to their position in the power structure became important. Their attitudes and opinions about the causes of and remedies for unemployment influenced the adoption by the government of a particular policy in this field. In addition to understanding what the groups or figures were and whose interests they represented, it is also important to understand their basic beliefs concerning the relationship between the state and the individual.

Based on my discussion, I have argued that although unemployment insurance was a matter which concerned the working class most, it is wrong to conclude that the working class had the final say about the outcome of legislation. In Sweden, due to its special relationship with the Social Democratic Party, the LO appeared to exert more influence on unemployment insurance than Britain and America. The roles of the organised labour in these two countries were replaced by small circles of ambitious reformers in Britain, and by some skillful experts in this field who represented the interests of business and of the President and his advisors in America. As far as influence of ideology on the outcome of the unemployment policy in the three countries is concerned, I have included two elements in my discussion. One is the basic beliefs of the people who were important in the decision-making process, and their connection with the national legacy, e. g. cultural traditions and the consequences of previous legislation, the other is the interaction between these beliefs and the actual political situation. From the former, it would seem that the decision makers' ideologies were somehow constrained by and associated with the dominant ideas of the society; from the latter, it is important to understand how people made changes to their basic beliefs for pragmatic reasons and how these changes affected the final formulation of the unemployment insurance schemes. Although the policy makers in the three countries held or were influenced by different ideologies, -- Ginsburg (1992) points out that decision making in Sweden was influenced by the social democracy; in the United States by voluntarism and liberalism, and in Britain by liberal collectivism, in each case small groups of individuals played key roles and compromises were made on political, financial and administrative grounds.

Chapter Seven Findings and Conclusions

Following the previous case studies and the comparative analysis of the introduction of unemployment insurance in Britain, Sweden and the United States, in this chapter, I provide conclusions to my work by spelling out some findings regarding the different introduction of unemployment insurance scheme (UI) in the three countries under investigation. They are carried out under three sections: research methods, unemployment insurance and policy making. Following the summary of what I have learned about programmes of unemployment insurance and about policy-making from studying the establishment of UI in the three countries, the final part of this chapter will be devoted to conclusions.

1. The Validity and Deficiency of the Research Methods Used in This Study

This section discusses the merits and shortcomings of my research methods. On the basis of the discussion, possible avenues for the future research in the field of social policy are suggested.

Easton's theory was utilised as the basis for developing an analytical framework in this study. The theory was useful because it accounts for the dynamic nature of political system in terms of the interaction between the system and its environment. However, the value of the theory is undermined by its failure to offer a convincing description of the operation of the system in which 'demands' and 'supports' as inputs turn into policies as outputs. In order to understand how the system functions, i.e. the way in which inputs are transferred to outputs, it is necessary to know what the demands and supports are, who constitutes them, how successful their efforts are and what responses those in power will make. In this context, the term power structure has been introduced. Through the analysis of power relationships between the different segments of society, the different roles they played in establishing specific policies, such as unemployment insurance, can be assessed.

Studying the roles of the political parties and pressure groups inevitably involves analysing their ideologies, which are largely ignored in Easton's theory. By examining the influence of ideology on policy making, we saw how the basic beliefs of the participants in the policy process affected their understanding and acceptance of unemployment as a political problem. Their ideas of the correct relationship between the

state, society and individuals were reflected in their proposals. In addition, we took into account the dominant ideology, which originated from the national historical and cultural legacy of the country, and analysed its impact on policy makers. Furthermore, the connection between the ideology of a group and its position in the power structure was also considered.

The inclusion of these two factors, as additional criteria to those suggested by Easton's theory, challenged the assumption that decisions are a purely functional response of the system to changes in its environment and are the product of value consensus among the different groups in society. In the field of social policy, the functionalist approach tends to regard the creation of the welfare state as functionally necessary, historically inevitable and similar in its characteristics in all advanced capitalist states. As a result, it neglects variations between countries and does not take into account that public policies are the outcome of choices.

In contrast to the functionalist perspective, this study not only explained why the introduction of UI became necessary, but also analysed how policies in this area were initiated in different policy contexts. It argued that although the acceptance of unemployment as an economic and political issue was generally caused by the economic situation of the sample countries, adequate explanations to those matters, such as when, how and by whom the problem was placed on the agenda, relied on the accounts for the political and ideological elements in policy-making process.

In terms of the first factor, the power structure, the varying influence exerted by the working class organisations, elite groups, political parties and business groups on unemployment insurance was examined. With regard the second factor, ideology, the basic beliefs and policy preferences of the individuals, groups and parties who participated in the process, and the impact of national social policy legacy in each country, were studied. The approach adopted in this thesis analysed the different elements and their sophisticated relationships in the specific historical context of each country and viewed unemployment insurance as the result of policy choices. The different interpretations of social problems by different groups in society and their significance were assessed. Other factors, such as the state of public opinion, the political situation, financial concerns and assumptions regarding the possible effects of policy on society were given particular attention.

The thesis also argues that, instead of analysing social policy only on the basis of theoretical assumptions, it is more fruitful to apply a historical and comparative approach

to the subject under investigation. The analysis of the process of policy formation was divided into two stages. The first examined whether or not legislative change took place in the context of social, economic and political elements. The second considered the actual form and shape of legislation as the outcome of the policy making process in terms of political and ideological considerations and national institutional legacies. The case studies accordingly were each composed of two parts. The first was a historical review of both the social, economic and political elements which brought the debate on unemployment relief onto the agenda and previous measures adopted by governments in order to deal with unemployment. The second analysed the characteristics of UI schemes in the three countries and explained the causes of their differences in terms of political and ideological factors and national institutional legacies.

The chronological account, which was employed in the historical analysis, helped us to assess the significance of 'social policy legacies' in establishing UI schemes in the three countries. It enabled us to see the consequent chains of policy development and the influence of the national institutional framework through the process of policy feedback. Within the framework, the problem of unemployment was dealt with by different parties and groups in different ways. During the 'political learning process', the historically ingrained institutional arrangements affected the elaboration of the interests of these groups, and the possibility of the government translating its political imperatives into public policy. The existing national institutional framework and social policy tradition shaped and defined the agenda of reform, influenced the state's capacities for political action and informed policy choices and policy outcomes.

The comparative study of the three countries under investigation highlights the diversity in establishing and developing welfare policies in different countries. It also demonstrates the importance of cross-national variations in the same policy area. Being the sample countries for my empirical study, Britain, Sweden and the United States share several common characteristics as well as major differences (see Chapter One). According to Esping-Andersen, these three countries are representative of the three welfare-state regime-types. The United States and Sweden can be regarded as 'liberal' and 'social democratic' respectively, while Britain is characterised as 'liberal' but in less extreme ways than the United States. Explanations of the distinctive features of UI in the different countries can be found in their different national political economic, institutional, cultural and historical contexts.

Due to the open competition of ideas, and the flexibility of the democratic policy making process, it is impossible to discover similar patterns of response, formulation and

implementation in a single policy area or to attribute the development of welfare policy to any single cause. By studying the power structure, the dominant ideology, the aims of powerful groups in society and the priorities of policy makers, we were able to identify how different countries provided different forms of protections for the unemployed. Their UI schemes revealed distinctive national characteristics in policy making and reflected different approaches to social justice, political control and wealth redistribution which were involved in the welfare system. The different responses to the same problem in different countries enabled us to see the unique contributions a single country can make to advance the notion of the welfare state.

Despite the above advantages of the research methods utilised in my case studies of the origins of UI in the three countries, their disadvantages are also apparent. The following are the limitations and, based on which, a few suggestions about research approaches in this field are put forward.

A. As far as the importance of political factors in the process of policy-making is concerned, this study used a general term, the political power structure, in order to include all the different segments in the power structure of society in the analysis. Instead of associating with any view which regards either the working class movement or powerful individuals or institutions as being decisive in this process, this study aimed to relate the different features of unemployment insurance schemes in the sample countries to varieties of the political power structures and to examine the differing roles played by the different sectors of the societies in the policy-making process for UI.

However, as the result of the empirical study, the thesis argued that a group of powerful figures demonstrated an essential influence in the process. The UI schemes in these countries embodied their assessment of the costs of the schemes and their assumption of its possible effect on politics (see Section Three for a more detailed discussion). It can be, therefore, suggested that, instead of focusing on both the power structure and the dominant ideology of society, research in this field needs to explore the impacts of the powerful elites on policy-making process. In order to carry out an in-depth analysis of their role in such a process, it is important to define the elites and investigate the interactions between them and society. Their functions cannot be just interpreted in terms of their ideological stands but also the constraints which society imposes on them.

B. The adoption of a chronological account allowed the researcher to analyse the different introduction of UI in the three countries in reference to national background and to investigate the development and effect of various government measures introduced in

these countries to deal with the problem of unemployment. It also demonstrated the different 'legacies' of the three countries and the different 'learning process' they went through. However, this type of account is prone to one problem, i.e. the inclusion of those historical events, which were thought as significant to the policy-making for UI in these three countries, into the historical review. While the experience of one country with the previous legislation concerning unemployment compensation acted as important reference for policy makers in designing UI scheme, the influence of other policies on the scheme was less crucial. Yet the judgment about their importance and contributions to the introduction of UI in these sample countries should be subjective. For the sake of efficient study, the opposite way, which allows the detailed analysis of the characteristics of the UI schemes in the three countries prior to a historical review in this field, might be worth attempting.

C. In order to explain the dynamics behind the selection of some alternative and available policy choices in the initial unemployment insurance in Britain, Sweden and the United States, questions such as how the initial proposals were discussed and how state provisions were finally formulated, were given particular attention. Thus, instead of providing a mere description of the features of unemployment insurance of the three countries, such as financing, coverage, benefit level and administration in each case, I concentrated on the relationship between the characteristics of the schemes and their causes. Such arrangement enabled me to see the extent to which the differences in the designs of UI were largely determined by the political and social traditions and doctrines in each country, but not to undertake a detailed analysis of the similarities and differences between UI schemes in the three countries and their possible impact on the life of those unemployed.

As identified in Chapter One, this study was descriptive and interpretative and based on the secondary sources obtained from libraries in Britain where the research was undertaken. Although during the course of the research, I made a one-month journey to Sweden where I gained more resources on the Swedish welfare system and interviewed some Swedish experts, information and the holdings of the subject in libraries were limited in some respects. First, many of the materials which might be useful had not been translated into English. Second, many references dealt with the Swedish model either by studying the various schemes of the Swedish welfare system or by comparing it with other welfare systems. These systematic discussions, focusing on a long historical span, demonstrated how this model was originally set up and how it developed. Yet they seemed to treat the initial Swedish UI scheme as a small part of the studies, and the connection between the causes of the scheme's features and the background knowledge

was not always clear. Therefore, the considerations about the very period of the 1930s with respect of establishing the UI scheme in this country and the evidence on the reasons for its characteristics were not sufficient. The similar argument could also be applied to the other two sample countries, especially the United States. In the light of these difficulties, the strength of my discussion of the different characteristics of UI schemes in Britain, Sweden and the United States were inevitably undermined.

D. In Chapter One and Two, I have argued that a historical and comparative study is important as it indicates that it is not possible to explain social welfare development in terms of a single cause or the similar pattern represented by the functionalist approach. In addition, the study of the three countries' historical experience not only helps us to understand current development in policy for the unemployed in three countries in question, but also has a wider implication for developing countries, where unemployment is emerging as an important issue. As the structural transformation of society caused by the industrial process has brought about the same problems as it did in the developed societies, the experiences of Britain, Sweden and the United States in dealing with unemployment could be of use for the less developed countries.

Developed in line with pluralist thinking, this study examined the origins of UI schemes in Britain, Sweden and the United States with multiple causes and various approaches. Such method was employed on the basis of the assumption that some factors clearly played important roles in the decision making process, yet their actual importance in the different countries was very different. While one approach was suitable to one policy in one country at a certain period, it was less useful than other approaches to explain some other policy in other countries at a different period. By applying different approaches to the same policy area in different countries, I attempted to discover which explanations was more appropriate for interpreting what happened in this field.

Yet, as addressed later, the experience of these three countries in establishing UI schemes highlights the important role exerted by a group of powerful elites and their pragmatic considerations in relation to national legacy. This indicates the danger of overestimating the applicability of pluralist thinking in analysing the development of welfare policies. In addition, pluralist thinking, which stresses the variety of policy-making process in different countries, may have a tendency to undermine the validity of the experience of the three countries under investigation in establishing UI scheme for other developing countries. In this context, it may be more fruitful to choose one developed country and one developing country as research targets. By examining the origins of UI in the developed country and comparing the different policy-making contexts between these

two countries, more relevant materials can be available for the developing country where unemployment insurance scheme is on the agenda.

2. The features of the UI Schemes and Their Significance

At the start of this thesis, I identified central questions regarding the development of UI schemes in the three countries. These questions were divided under two categories. One concerned the specific features of the original UI scheme in Britain, Sweden and the United States, while the other dealt with various factors which appeared in the different policy-making contexts of these countries in order to discover the causes of the different designs of their UI schemes. Due to the time limit, I focused on those choices concerning financing, coverage, benefit levels and administration of the scheme in my study.

The establishment of unemployment insurance is a result of the insecurity of wage employment and the inadequacy of private and other traditional forms of support. The schemes incorporated a strong link between eligibility and participation in the labour market, relating benefits to contributions and thus to employment. In order to be entitled to the state benefit, the unemployed person must have worked and built up a record of contributions. The right to the benefit is therefore earned by the individual recipients and their self-respect is maintained. It thus involved a pooling of risks rather than resources, and involved less a redistribution of wealth than a reapportionment of the costs of risk and misfortune. Through the pooling of risks in the community, the individual no longer bore the burden of uncertainty alone.

The contributory principle embodied in UI schemes in Britain and Sweden attempted to encourage individuals to take responsibility for their own security, while their American counterparts provided for the employer contribution only in order to urge employers to regulate employment. These arrangements thus reflected a mixture of individualistic and collective thinking. On the one hand, the state is responsible for protecting anyone who is covered against a particular contingency, and those in need are treated equally. On the other hand, the individual's right to benefit is related to his/her past employment and contributions, and therefore must be regarded as independent. State intervention comes into play only when the causes of problems are not the fault of the individuals concerned and are beyond their personal control. In addition to the individualistic thinking of the policy makers, the problems faced by the early non-contributory pension scheme in the UK and the unsuccessful experience of the UK in departing from the contributory principle in the 20s and 30s, were also important for British policy makers and their

Swedish and American counterparts. They realised that, in order to be run successfully, it was necessary to base their UI schemes on the contributory principle.

As far as earnings-related benefits in the Swedish and American UI schemes are concerned, the payments were made according to the previous income and contributions of the claimant. Earnings-related benefits have a tendency to reinforce the unequal economic positions of individual beneficiaries and reflect the philosophy of the market economy in which the individuals' earnings are related to their capabilities. In Sweden, the earnings-related principle was also adopted by the SDP for political reasons: such policy was consistent with the Liberal Party's preferences and its support was crucial for the SDP in the 1930s.

In the United States, earnings-related benefits were consistent with the individualistic tradition of the society and reflected the influence of the Wisconsin group who insisted on the importance of unemployment prevention rather than the amelioration of its effects. The tax off-set device ensured that the employer's tax payment was related to his record of compensation payments for unemployment among his employees. This maintained the incentives of individual employers to stabilise employment. The costs of extended coverage and higher benefits of the British UI scheme in the 1920-30s and its subsequent problems strengthened the belief of the Wisconsin group that the British approach, which emphasised the concept of adequate benefits, greater income redistribution and employee contributions, was unsuitable for the USA.

Flat-rate benefits contained in the British UI scheme attempted to treat every beneficiary equally and were more redistributive than earnings-related benefits. The egalitarian principle contrasts with the income-related approach to social insurance, which associates wealth with economic power and perpetrates the inequalities of market place. However, the level of the payment, based on the flat-rate principle, was low and this came to be regarded as a social minimum. Beveridge believed that most of the population in the nations which adopted a universalistic social insurance system, would regard the modest and egalitarian benefit as less than adequate and that private insurance systems would operate as a supplement to the basic subsistence benefit. If the benefit level was higher, it would impose a heavy financial burden on government. In addition, there was a concern that UI should not encourage laziness and make the recipients 'work-shy' since that would lead to moral collapse. If benefits were close to earnings in work, they would have a negative effect on people in employment and on the incentives of the unemployed to find employment.

Thus, flat-rate benefits in the British UI scheme encouraged individuals to seek other supplementary, private provisions in addition to social insurance. With a low level of flat-rate benefits, those who were more privileged would find their needs inadequately met. This reinforced a dualism in which the state offered modest levels of benefit for the poor and the market satisfied the needs of the middle class for higher levels of welfare provision. Although it satisfied individuals' needs better, private provision was less redistributive. It also provided little protection for poor risks and against inflation. Those without private provision had to rely on means-testing. In spite of allocating benefits to those with greatest financial needs, however, means-tested benefits created a social stigma for those who were eligible to claim.

In keeping with the above, the thesis argues that, if wage differentials between skilled and unskilled workers and between different industries and regions of one country are narrow, it makes sense to adopt flat-rate benefits. In contrast, if the differences between different regions and different professions are wide, it makes more sense to introduce different rates of benefits, rather than a single uniform one. In this case, benefits can be related more closely to the incomes of the recipients, and reflect their living standards more closely. In addition, the impact of benefits on work incentives for the unemployed is likely to be less severe. However, earnings-related benefits reflect the inequalities of market place as mentioned above and increase the complexity of administration. In countries where contributions are jointly paid by employees and employers and standards of living are high, the policy of relating contributions and benefits to wages will be more extensively applied, and uniform subsistence rates will be challenged.

As far as the coverage of the initial UI schemes in the three countries is concerned, not all the workers participated in the programme. Only certain industries, i.e. those which were subject to the seasonal unemployment in Britain and groups of workers in certain occupations in the United States, were included. In Sweden, the programme was voluntarily based. The SDP simply used the already existing self-help organisations among the unions to administer its UI programme. But coverage in practice was extensive, as their membership was very high and it was obligatory for the members of most unions to join the unemployment insurance fund.

The arrangements for coverage originated from the practical (technical) concerns of the decision makers with the running of the programme. In the British case, for example, the selective coverage of certain enterprises, which were vulnerable to seasonal unemployment, was related to the experimental nature of the scheme and the financial concerns of the policy makers to guarantee the necessary resources in order to finance the

scheme. The voluntary nature of the Swedish scheme was based on the political concerns of policy makers with the reaction of the Liberals, who were in favour of voluntary social welfare programmes, to their proposal.

The significance of partial coverage, together with earnings-related benefits in Sweden and the United States, was to strengthen inequalities among members of society. Those, who were more vulnerable to unemployment, who most needed protection from the state, were likely to be marginalised, while the privileges of the better off were enhanced. As a result, the gap between rich and poor among workers was enlarged and, at the same time, the solidarity principle, promoted by the labour movement, was weakened. One of the important elements of solidarity fostered by social insurance was universality, which ensured that all citizens were treated in the same way regardless their social status. This principle was advantageous for the poor and represented an enhancement of the interests of the working class, and also was, at the same time, beneficial for social integration. It emphasised the importance of the state to provide security for all citizens and thereby reduced the inequality among the different segments of society, and the common pooling of risks among the poor and the rich.

Regarding the administration of the initial UI scheme in Britain, Sweden and the United States, there were basically two types, i.e. one was central government controlled, and the other was de-centralised. The UI scheme in the United States reflected the delicate question of keeping a proper balance between federal and state government. Policy makers had to operate within a very diverse society and a federal system in which the state and local levels were extremely important. Thus, in the 1935 Act, no standard national benefits (or employee contributions) were introduced. The states were given freedom to determine the amount and duration of the benefits as well as the coverage and the level of contributions. The original one percent contributions to a pooled fund by the individual employers was replaced by a range of different tax rates. In Britain, unemployment insurance was administered by central government. This was recommended by the Minority Report of the Poor Law Commission, which argued for national administration in order to tackle unemployment efficiently. In Sweden, although the unions were the basic administrative bodies of the UI scheme, due to the close ties between the SDP and the LO, however, the control of the central government was still firm. In theory, the UI funds could apply for government subsidies on condition of being approved by the government. In practice, this meant they had to follow the stringent rules set up by the government.

The different administrative arrangements for the initial unemployment insurance schemes in these three countries indicate that the choice made by policy makers were related not only to their understanding of the different political and social structures of the country and the influence of national traditions, but also to their political concerns regarding the relationship between the state, the individual and society. While it was conceivable for a country like Sweden, which was ethnically homogeneous and socially unified and a relatively small country like Britain, to introduce a uniform UI scheme, in a large country, like the United States, which was politically, economically and ethnically diversified, the operation of the UI scheme was bound to be decentralised. In the USA, the state was seen as the major tier of government in most domestic issues. Local government had the autonomy to decide the specific regulations while central government provided general policy guidance. The absence of a uniform national system in the Act also reflected the influence of the Wisconsin school and the Roosevelt Administration's concern with the reaction of the business community. The advantage of such approach relied on its sensitivity to the different needs of beneficiaries and different local situations. However, it had a tendency to treat people in the same positions differently, and differences between the regions were increased due to the diversity of the policy.

The establishment of unemployment insurance in Britain, Sweden and the United States also involved the preference of the policy makers of work creation over cash support in providing social security to wage earners and their understanding of the contribution of unemployment insurance. This played an important role in the final design of their UI schemes .

Compared with Britain, Sweden and the USA regarded UI as a less prominent political issue. The politicians and the business community in the United States believed that, instead of emphasising income redistribution, employers should be given incentives to stabilise employment. In Sweden, the SAP and LO gave priority to fiscal policy and wage solidarity and adopted full employment as their main political goal. The aim of Swedish welfare policy in the early 1930s was to build up a general safety net that would eliminate the need for a humiliating, means-tested form of assistance. It was however not until after the Second World War that these policies were put into practice. In the 1930s, the Swedes concentrated their political energies on crisis management and economic relief, rather than on constructing a blueprint for the modern welfare state from which the Swedish model eventually emerged.

Policy makers in the United States believed that real social security for the unemployed depended on job creation and national economic growth rather than cash support.

Security depended on the combination of private employment, UI and emergency relief. The Swedes' commitment to full employment was based on their assumption that, in order to achieve solidaristic and universalistic welfare programmes without causing social and financial problems, it was necessary to combine work and welfare; work was the best way to maintain the individuals' dignity and their security. Their British counterparts also focused on the national labour exchanges system when they established their UI scheme. This reflected the strong influence of the traditional, liberal work ethic ideology among policy makers. Cash benefits were only available after the attempt to provide a job for the unemployed person had failed. Thus, compared with work creation and employment policy, cash provision and income redistribution were regarded as of secondary importance in dealing with social security.

Based on the above description of the different characteristics of UI scheme in Britain, Sweden and the United States, it can be argued that Esping-Andersen's classification of the three welfare state models was helpful for our analysis of the distinctive features of the welfare programmes in different countries. However his theory referred to the subsequent development of the welfare systems rather than to the initial introduction of social security schemes, which did not, at the outset, contain all the characteristics of the relevant regime-types.

Britain's 1911 Unemployment Insurance scheme was basically a Liberal experiment and it is implausible to argue that it had already embodied those characteristics of the Liberal regime type. To some extent, it reflected market-oriented liberalism, combining the traditional self-reliance principle with state assistance. In contrast to Esping-Andersen's argument, white-collar workers as a rising political force did not exert much influence on the consolidation of the British welfare state before World War II.

Esping-Andersen's arguments about social democratic regime-type are more applicable to the 'Swedish Model', which was established in the post-war period, than to the Unemployment Insurance scheme introduced in 1934. The Swedish Unemployment Insurance scheme is, in some aspects, an exception to the general character of the Swedish welfare programmes and quite separate from other social insurance programmes. Universal coverage, for example, has been held to be one of the trademarks of the Swedish model in which every citizen, regardless of social status, is entitled to benefits of social insurance. This universalism in social policy was in effect implemented by agrarian parties and the salaried middle class after the Second World War. Social reform was a top priority for the Social Democratic depression cabinets. Yet in order to deal with the economic crisis of the 1930s and protect the well-being of the working class

in a newly established democratic system, the Social Democratic Party had to build up the programme in a way which would be politically acceptable to other parties and pressure groups, and was financially possible. Most of the welfare reforms were initiated in the relatively prosperous period after 1945, in which the basis for Sweden's reputation as a model of the welfare state -- the so-called active labour market policy -- was first developed.

According to Esping-Andersen, the American welfare system is regarded as in the 'liberal' style which is associated with individual independence and limited public support. The unemployment compensation programme of the 1935 Act complied with the dominant ideology of the society which was individualism-oriented. Yet, it also reflected the changing attitude of the public, in the wake of the hardship of the depression, to Federal government involvement in social measures. In order to understand better the reasons why the scheme had these features, we should look at the political structure of the country and the pragmatic thinking of the people involved in the policy making process, i.e. they made their decisions in relation to their constitutional, political, financial and other technical concerns. The final decision in unemployment insurance rested not with experts but Congress and the President.

In keeping with the above, the following section intends to analyse the ideological influence of the elites and the role played by groups, such as political parties, trade unions and business organisations in the policy-making process for UI in the three countries. Through such an examination, the connections between the different introduction of UI in these three countries and their different social, economic and political contexts are identified.

3. Policy Making Process

Social policy is not just a fruition of the economic, political and ideological systems which are found in different countries, but is also related to people who are identified with a particular social status, profession and/or region whose interests are affected by the policy. Interactions between different groups and parties, different ideologies which influence the attitudes of decision makers and different bases of class support for the government, are reflected in public policies.

Unemployment insurance schemes in Britain, Sweden and the United States were initiated in different national and historical circumstances. Although the ideologies of the participants were crucial in accounting for policy making in UI in the three countries, the

national legacy was even more important. The adoption of ideological positions by policy makers was constrained by the national legacy, by cultural tradition and by the consequences of previous legislation. In addition, their policy choices were also influenced by the political situation and by the experience of other countries in this area. Their interpretation of a problem as a political issue and their adoption of a certain policy to deal with it were not only related to their basic political beliefs but also predictions of the reactions of their political rivals and other pressure groups. Those involved in the process found it necessary to adjust their policy aims, based on their political beliefs, to complex political situations and to adopt pragmatic approaches whenever this was necessary. Thus they were often forced to adopt a short-term perspective.

Using the 'top-down' and 'bottom-up' approaches, the thesis argues that the final outcome of the policy process has not only determined by the political preferences of policy makers, but also by the attitudes and assertiveness of different groups in society. Through this comparative study, it is clear that organised labour did not always have an important influence on the outcome of the policy-making process. Organised workers' ability to pursue their political aims through political parties varied from one country to another.

This is due not only to their disadvantaged position in the national power structure, but also to their basic belief about the role of the state in relation to their own interests. Due to different historical legacies and different power structures, the labour movement and labour parties were accepted by society in different ways and exerted different roles in terms of the establishment of UI in these three countries. While the Swedish trade unions played a relatively more influential role in introducing UI, because of their close political and ideological ties with the SDP, their British and American counterparts exercised, at most, an indirect or marginal influence. This was either because of their skeptical attitude towards government in protecting their interests or because of a sense of political impotence which prevented them from acting as powerful participants in the process of social reform.

As far as the British case is concerned, although the 1906-11 social reforms were influenced by the Government's awareness of the demands of the Labour Party, they should not be attributed to the efforts of the labour movement. Compared with their Sweden counterparts, the British unions did not act as a positive force in establishing unemployment insurance. The American labour movement in general lacked a clear philosophy to inform its activities. The early realisation of the workers' right to vote and the expanding economy, which provided a long-term means of raising standards of

living, engendered less pressure on the great majority of workers in the USA to demand a special organisation for the sake of improving their conditions. Their indifferent attitude towards the establishment of the 1935 UI scheme reflected their mistrust of government policies and the individualistic tradition of the nation.

In contrast to the workers, who failed to exert a decisive impact on the issue that concerned their interests most, other groups, such as the business community and farmers, exercised considerable influence. However it was influential figures from administrative circles in Britain and the United States, who were responsible for the final formulation of the policy. Small groups of powerful individuals or institutions in these two countries were decisive in the process. As Grant (1986) has argued, the 'elitist' perspective assumes that in practice there is a great concentration of power in the American system; as far as the important issues are concerned, only a closely knit group of economically powerful leaders exert effective control over policy making. The design of the 1935 Act, for example, the tax offset device, to a large extent, originated from the efforts of people from the Committee on Economic Security led by Witt. They used their knowledge and experience to influence the President and Congress, as the Economic Security Bill did not get support either from the business community or organised labour, it also disappointed the advocates of social insurance, i.e. social workers, labour legislation experts. The British UI scheme was introduced in response to various pressures: public opinions prior to its introduction, international competition and the failure of the Poor Law to provide help for those in need. However, it was the shift of power within the Liberal Party that gave Churchill and Lloyd George the opportunity to put their reforming ideas into practice.

The change in public opinion was due to their interpretation of social problems and the inadequacy of traditional methods of dealing with them. Along with their understanding of the social causes of unemployment, based on research on the unemployed and their social environment, the measures adopted in western nations for tackling it moved from a mix of traditional Poor Law and private charity to governmental programmes. As the complete elimination of unemployment from society proved impossible, there would always be a certain number of people who were under threat of losing their job. Whether the total number was large or small, such people were obviously in great need of help. Thus, the need for unemployment relief measures would always exist. When the inhumanity of the Poor Law and the financial vulnerability of private charity became too self-evident, state action in this area came to be seen as necessary. Being aware of the potential threat to the existing social order caused by economic hardship and the growing strength of industrial working class as an organised force, ruling elites introduced

welfare policies in order to provide help to the unemployed and preserve the stability of society. In the United States, for example, disaffection with the regime during the Great Depression persuaded the government to adopt more positive action to tackle unemployment as discussed above.

The possibility of developing welfare policies against unemployment emerged from the screen of political opportunity, turning new thinking into political action and finally, through bargaining and concessions, into policies. How people defined and interpreted the problems and how they got their ideas onto the agenda are crucial in understanding the development of welfare policies. The step-by-step account in this study indicates that the consequences of earlier attempts at policy making and implementation influenced the formulation of subsequent policy in this area. Policy makers often sought to achieve a balance between their own political preferences and constraints imposed by the policy making environment and the historical background they were facing. Thus, policy makers made decisions not only on the basis of social welfare doctrines, but also in the context of constitutional, political and financial concerns. They had to predict the feasibility of the financial and administrative arrangements which the implementation of the policy would require and its political effects. Thus, the pragmatic approach of those in powerful positions were clearly important.

In Britain, ambitious figures in the Liberal government committed themselves to social reform and were keen to introduce welfare policies. Yet, their collectivist thinking was infused with traditional individualism and other practical concerns. Thus, dramatic changes in politics were not always possible. The Swedish Social Democratic Party had to take the Liberal Party into account since its support was crucial for the SDP in the 1930s. In order to realise its political strategy of establishing a coalition with farmers and getting support from the Liberals for its UI proposals, the SDP was forced to make concessions. Its constitution also made co-operation and compromise between the various parties and groups possible. In the United States, the outcome of the UI showed the influence of the anti-redistributive model of the Wisconsin school, and reflected the concerns of the Democratic Party with the attitudes of the business and employers.

4. Based on the above discussion of the policy-making for establishing unemployment insurance in the three sample countries, the following are the conclusions of my study.

A. In Chapter Two, I argued that ideological differences are reflected or embodied in governmental policies. Since various sectors of society occupy different positions within the power structure, a party or pressure group, which holds a favourable economic and

political position, is more likely to impose its beliefs on the formulation of policy than others. In order to adequately answer questions such as why certain decisions have been taken, it is important to understand who makes the decisions, how problems are defined, which remedies are considered, which aspects of each solution are assigned greater priority and how priorities are determined.

My analysis thus focused not only on the ideological motives underlying decision making process, but also the power structure and political relationships among the parties involved. As UI was meant to offer compensation and serve the interests of some groups in society, politicians did not only assess the circumstances of those who were vulnerable to unemployment, but also took into account the availability of resources and the possible effect of this programme on their governance. The concept of political and financial feasibilities was crucial because the concerns of policy makers about feasibility, effectiveness and costs of state provision influenced their choice between several alternative solutions, and helped us understand why one remedy was introduced rather than another.

This thesis concludes by emphasising that, although policy makers' ideologies influenced their policy preferences, our assessment of the impact of ideology on the development of social policy must also be based on more relative terms. Although it is important to consider prevailing public opinion at the time when unemployment insurance schemes were introduced, it is also dangerous to draw cause-and-effect relationships between dominant ideologies and the outcomes of decision making in this field. Pragmatic considerations of those involved in the process have been an important element in policy choices: their decisions were made not only on the basis of beliefs but also on political and financial grounds.

B. In relation to the above discussion, one question is raised: among these two elements, people and power, what will the decision makers have to take into account first -- a battle for the possession of power with their political rivals and the practice of their political beliefs, or for the interests of the people who need help and protection? In connection with this question, the participation and influence of those at the grass-roots on policy making need also to be considered.

Based on 'top-down' and 'bottom-up' approaches, this study attempted to see if the entire process of public welfare programmes involved an interaction between the ability of the elite to adequately respond to emerging problems from above and the ability of the working class to present its interest through building alliances with other groups or

classes from below. Thus, in addition, the adoption of a policy reflected not only the political preferences of policy makers, but also the assertiveness of those who demand their rights.

While in theory it is essential to consider the impact of organised labour on the policies most closely related to their interests, the experience of these three countries highlights the danger of overestimating its role in the policy making process. This study has revealed that the 'bottom-up' approach of policy making does not apply to the introduction of unemployment insurance schemes in the three countries under investigation. Though initially interested in social reform, mistrust, disenchantment and a sense of impotency often prevented organised labour from acting as a full participant in the process of social reform.

Referring to the discussion in Chapter Two, studies in the field of welfare policy examine not only decisions made by those in power but also non-decisions. As many benefit recipients of welfare programmes are in a disadvantaged position in the power structure, they feel unable to make their voice heard by the decision makers, or they are indifferent to the issues which are related to their interests due to their skepticism of those in power. As a result, decisions based on the political beliefs of the decision makers and influenced by the better-off in society, may fail to meet the needs of the recipients and solve their problems.

By contrast, other factors, such as the non-socialist parties, business groups, administrators, experts and, in particular, the elites, exercised considerable influence over the final outcome of the policy making process in UI was significant. The elites, who were often concerned about maintaining political and social stability, actively campaigned for and organised the introduction of unemployment insurance. Instead of simply responding to the economic and social pressures, they demonstrated their own preference and ambitions as how to construct their activities and sustain their own relative independence in the spheres of activities for administrators and experts. They formulated proposals and made necessary compromises frequently in order to gain the support of other influential parties, such as the business community and in the case of Sweden, the farmers. This in turn influenced the shape of the final legislation which affected the interests of the working class.

C. In addition to introducing ideology and power structure as two complementary elements in order to increase the power of Easton's theory, the historical legacy of the country under investigation, as the thesis reveals, is of crucial importance in explaining

the outcomes of the policy making process. Previous legislation concerning unemployment relief and the nation's experience with the earlier measures have had an impact on the policy makers. The cultural tradition of society is equally influential. In setting up proposals for dealing with the problem of unemployment, the policy makers will take into account the feasibility of certain policy in the light of the consequences of the historical ingrained institutional arrangements and comply with the national tradition. Once institutional solution is discovered and implemented, it will become a 'social fact' which constrains the subsequent political strategies and have a far-reaching and long-term effect on the stability and integration of society.

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